

AR54



1997 ANNUAL REPORT



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CORPORATE PROFILE

Alliance Communications Corporation is a global producer, distributor and broadcaster of filmed entertainment. Headquartered in Toronto with offices in Montreal, Vancouver, Los Angeles, Paris and Shannon, Alliance shares trade in Toronto and Montreal under AAC, and on NASDAQ under the symbol ALLIF.

The Directors of Alliance Communications Corporation acknowledge with respect and gratitude the faithful service of **Andrew Sarlos, O.C., LL.D. (HON), F.C.A. (1931–1997)**, a distinguished member of the Board, and, forever, a wise and trusted colleague.

All figures in this report are expressed in Canadian dollars unless otherwise noted.

CORPORATE STRUCTURE



REVENUES

in millions of dollars



CASH FLOW FROM OPERATIONS

in millions of dollars



EBITDA

in millions of dollars



INVESTMENTS IN FILM AND TELEVISION PROGRAMS

in millions of dollars



NET EARNINGS

in millions of dollars



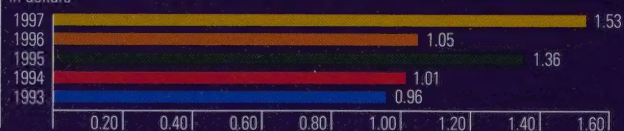
TOTAL ASSETS

in millions of dollars



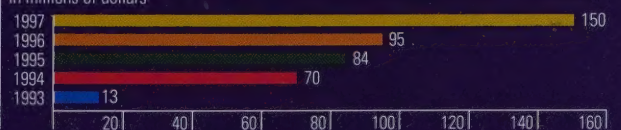
BASIC EARNINGS PER COMMON SHARE

in dollars



SHAREHOLDERS' EQUITY

in millions of dollars



AWARDS AND HONOURS

MOTION PICTURE AWARDS

Berlin Film Festival	C.I.C.A.E. Award	Welcome to the Dollhouse
Cannes International Film Festival	Special Jury Prize	Crash
Fantasio, Portugal	Critics Award	Denise Calls Up
Fantasio, Portugal	Audience Award	Denise Calls Up
Genie Awards	Best Achievement in Sound Editing	Crash
Genie Awards	Best Achievement in Film Editing	Crash
Genie Awards	Best Achievement in Art Direction	Lilies
Genie Awards	Best Achievement in Costume Design	Lilies
Genie Awards	Golden Reel Award	Crash
Genie Awards	Best Motion Picture	Lilies
Genie Awards	Best Overall Sound	Lilies
Genie Awards	Best Adapted Screenplay	Crash
Genie Awards	Best Achievement in Cinematography	Crash
Genie Awards	Best Achievement in Direction	Crash
Deauville Festival of American Cinema	Grand Prize	The Daytrippers
Sundance Film Festival	Filmmaker's Trophy Award	In the Company of Men

CANNES INTERNATIONAL FILM FESTIVAL AWARDS (MAY 1997)

Cannes International Film Festival	Grand Prix	The Sweet Hereafter
Cannes International Film Festival	International Critics Prize	The Sweet Hereafter
Cannes International Film Festival	Ecumenical Prize	The Sweet Hereafter

TELEVISION AWARDS

Banff International Television Festival	Best Continuing Series	Due South
Banff International Television Festival	Best Animated Program	ReBoot
Golden Gates, San Francisco	Golden Gate Award	Due South
Worldfest Houston	Gold Award	Mirror Mirror
Worldfest Houston	Silver Award	Reboot
Gemini Awards	Chrysler Canada Award	Due South
Gemini Awards	Best Dramatic Series	Due South
Gemini Awards	Best Performance by an Actress	North of 60
Gemini Awards	Best Animated Program or Series	Reboot
Gemini Awards	Best Performance by a Supporting Actor	North of 60
Gemini Awards	Best Direction	Straight Up
Gemini Awards	Best Performance by an Actress	Mother Truck: The Diana Kilmory Story
Worldfest Houston	Gold Special Jury Award	The Hunchback

PRIMETIME EMMY AWARDS NOMINATIONS (JULY 1997)

Outstanding Art Direction for a Miniseries or a Special	The Hunchback
Outstanding Costume Design for a Miniseries or a Special	The Hunchback
Outstanding Hairstyling for a Miniseries or a Special	The Hunchback
Outstanding Makeup for a Miniseries or a Special	The Hunchback
Outstanding Costume Design for a Miniseries or a Special	The Inheritance

SELECTED HIGHLIGHTS

- May 20/96** Crash wins Special Jury Prize at Cannes Film Festival.
- June 1/96** Diane Keaton signs first look deal with Alliance.
- June 25/96** Alliance signs exclusive television deal with Director John Woo.
- July 23/96** Crash becomes first Canadian motion picture to capture in its opening week, first place at the French box office.
- Aug. 22/96** Alliance completes cross border offering, realizing net proceeds of \$32.9 million.
- Sept. 4/96** Alliance wins coveted analog license to launch History Television.
- Sept. 18/96** Alliance realizes profit in Mainframe investment and retains international distribution deal.
- Sept. 19/96** Alliance forms Equicap Financial Corporation. Robert Beattie named division head.
- Oct. 30/96** Principal photography begins on Atom Egoyan's The Sweet Hereafter.
- Nov. 15/96** The English Patient opens in Canada culminating in \$13 million at the box office.
- Nov. 27/96** Crash wins 6 Genie awards including the Golden Reel Award for top grossing film. Lilies wins Genie award for Best Motion Picture.
- Jan. 13/97** Alliance/Shaw Partnership files application for a national Video on Demand programming service.
- Jan. 13/97** Alliance begins production with international partners on Captain Star, the company's first conventional animation series.
- Jan. 23/97** Alliance increases ownership in Showcase Television to 99%.
- Jan. 23/97** Alliance acquires 20% interest in La Fete Group.
- Feb. 27/97** Alliance forms joint venture with UK theatrical distributor, Electric Pictures.
- Mar. 2/97** Alliance wins 7 Gemini Awards including Best Dramatic Series for Due South.
- Mar. 4/97** Alliance begins principal photography on John Woo's Once a Thief, the series for delivery on fiscal 1998.
- Mar. 24/97** Films distributed in Canada by Alliance Releasing win 12 Academy Awards led by The English Patient.

Fiscal 1997 was a year of success for Alliance. On the one hand, the company experienced earnings growth momentum, particularly in the core production, distribution and broadcasting businesses. On the other hand, Alliance's long term strategies began to bear fruit as the company achieved a number of its targeted objectives.



Robert Lantos
Chairman and
Chief Executive Officer

We pursued our two-pronged strategy with determination and confidence:

1. TO MAXIMIZE OUR ACCESS TO THE MARKET BY BUILDING OUR DIRECT DISTRIBUTION REACH.

- We renewed long term Canadian distribution agreements with the two top US independent motion picture producers, Miramax and New Line.
- We successfully applied to the CRTC for a license to launch a new specialty network - History Television - a highly-prized and fiercely contested service which was awarded one of the last analog licenses and which will be launched on a new specialty tier by all major Canadian Cable Systems in September 1997.
- We consolidated our ownership of Showcase Television through the acquisition of most of the minority interest thereby increasing our equity from 55% to 99%.
- We ensured long term revenue growth for Showcase Television, obtaining the CRTC's approval to increase the service's permitted advertising time to 12 minutes per hour from its original 8 minute maximum.
- We expanded the reach of the now profitable Showcase Television to 3.5 million homes which will grow to 4 million in September 1997 through a new carriage agreement with Videotron and CF Cable in Montreal.
- Through a 50-50 joint venture with Shaw Communications, we applied for and received a license to launch a national Video-On-Demand service in English and French, a new distribution medium which we believe will have a significant long term impact on revenues.
- We entered the UK theatrical distribution market, teaming with distributor Electric Pictures.
- We expanded into the US first-run syndication market through distribution agreements with Polygram Filmed Entertainment.
- We acquired a 20% interest in Canada's leading childrens' film producer, Quebec's Les Productions La Fete, with an option to double our equity.
- We launched an in-house ad sales division in our Broadcasting Group, replacing the previous agency arrangements and resulting in immediate revenue growth.
- We acquired Canadian distribution rights to approximately 100 hours of drama from producer Telescene.
- We expanded our Canadian video operations into the distribution of non-theatrical product, including titles from Nelvana's animation catalogue.



Victor Loewy

President - Alliance Motion
Picture Distribution
Vice Chairman - Alliance
Communications Corporation

2. TO BUILD AND IMPROVE OUR CONTENT LIBRARY.

We retain long term distribution rights by producing proprietary projects. We ensure continued production growth through increased investment in in-house development, exclusive deals with carefully targeted high profile talent, and by recruiting skilled creative executives.

This philosophy has already begun to yield dividends as highlighted in television by John Woo's *Once A Thief*, Diane Keaton's *Northern Lights* and Larry Gelbart's *Fast Track*, and in motion pictures by Atom Egoyan's *The Sweet Hereafter* and by the upcoming David Cronenberg's *eXistenZ*, Istvan Szabo's *Sunshine*, and Costa-Gavras' *No Other Life*.

Throughout the year, we continued our relentless pursuit of excellence. The quality of our product determines our stature in the industry and the prices we command in the international marketplace.

In turn, our peers rewarded us with some of the industry's highest laurels:

- Once again we won the top Canadian television and film honours. At the Gemini Awards, *Due South* was named Best Dramatic Series for the third consecutive year – the tenth time an Alliance produced series won this award. Also for the third time, *Due South* won the Chrysler Canada Award for Most Popular Television Program and *ReBoot* won the Gemini for Best Animated Program.
- *Crash* won a Special Jury Prize at the 1996 Cannes Film Festival.
- In May 1997, *The Sweet Hereafter*, the fourth Alliance collaboration with director Atom Egoyan, was the most decorated film at this year's Cannes Film Festival, winning three major awards including the Grand Prix. It is now three years in a row that an Alliance film has won an award in Cannes.

- Motion pictures acquired for Canada by Alliance such as *The English Patient*, *Shine*, *Secrets & Lies* and *Sling Blade* won 12 Academy Awards this year.

- In July 1997, Alliance received five prime time Emmy nominations, four for *The Hunchback* and one for *The Inheritance*.

Ultimately, our strategy is – to put it bluntly – to make money – which is exactly what we accomplished in fiscal 1997 with a 27% growth in earnings from \$10.4 million to \$13.2 million, a 42% growth in EBITDA from \$18.8 million to \$26.7 million, and a 66% growth in pre-tax earnings from \$12.3 million to \$20.4 million. (These results are exclusive of the Mainframe related gain). Our distribution-driven, diversified production strategy ensures that this growth will continue in fiscal 1998 and in the years to follow.



From left to right:
Atom Egoyan, director and producer of *The Sweet Hereafter*. **John Woo**, director and executive producer of *Once a Thief*, the movie. **David Cronenberg**, writer, director and producer of *Crash*. **Dianne Keaton**, executive producer and star of *Northern Lights*.

A report to our shareholders must be more than just corporate cheerleading. A critical analysis of the company must also take into account its vulnerabilities and unfulfilled expectations. This year at Alliance:

1. We targeted the UK market because, after the US, it is the world's strongest source of independent movies. To support the initiative we competed for a lottery franchise in order to better access British film subsidies.

We assembled a strong and diverse group of partners. Under the name Studio Pictures, we competed for a franchise award which, had it succeeded, would have triggered some \$60 million of off-balance sheet production financing over five years.

Although we were not successful, we achieved our goal of expanding Alliance's production reach into the UK, forging an important tie with one of the UK's leading film production executives, George Faber, the former head of BBC Films. Mr. Faber's Company Pictures, in which Alliance is a shareholder, now has an overall production deal with Alliance. The British distributor Electric Pictures formed the platform for our move into the UK distribution market.

2. Our television production slate suffered from an imbalance between series and movies. With only two series in production, television movies dominated the slate. Movies are more costly per hour than series. This negatively impacted our gross margins. The imbalance has been addressed. Fiscal 1998 features our largest television production slate ever with 120 hours confirmed for delivery this year.

The slate is now dominated by series, with six in production and several pilots underway. Because we own extensive rights in perpetuity to all our productions, even the less profitable television movies are valuable additions to our library and will continue to generate revenues well beyond their amortization cycle.

3. In 1994, we invested in a start-up television station in Hungary, Budapest TV3. Our strategy was to create a new market for our library and, parallel with our investment, we entered into a long term product supply agreement with TV3.



The Company's diverse day to day business activities are managed by a Management Executive Committee comprised of Robert Lantos, Victor Loewy and shown here from left to right:

Roman Doroniuk
Chief Financial Officer,
George Burger
Executive Vice-President,
Jeff Rayman
Chairman,
Alliance Multimedia
President,
Alliance Equicap

While the station has been modestly successful, we are experiencing collection difficulties on our supply agreement which has now been suspended. Our investment in TV3 is not material (approximately \$1.3 million) and we believe that its value is not at present impaired. With TV3 not proving to be of strategic value to our library sales, the Company may sell its interest in the station.

THE EQUICAP FACTOR

Our focus on expansion and the strengthening of our core businesses over the past three years has significantly reduced Equicap's share of the overall earnings picture of Alliance. The potential negative impact of ending Equicap's tax shelter activities on the Company's earnings has been minimized.

In fiscal 1997, Equicap's tax shelter business contributed approximately \$4.5 million to our net earnings, or 34% excluding the Mainframe gain, down from 38% in fiscal 1996. Net earnings in our core businesses increased from 1996 to 1997 by 34%, excluding the Mainframe gain.

Our growing production slate, renewed distribution output deals, growth in our broadcasting business and revenues generated by our library will ensure that our overall earnings growth is not compromised by a reduced contribution from Equicap in fiscal 1998 and beyond. We are confident that we have successfully replaced Equicap's tax shelter earnings with valuable and predictable profits from our growing core activities.

While we anticipate no earnings from tax shelters in fiscal 1999, we do expect growing revenue and earning streams from Equicap's new ventures led by Equicap Financial Corporation.

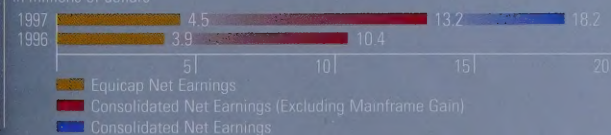
HIDDEN ASSETS

A brief inventory of some extraordinary assets whose value is not fully reflected on the balance sheet:

1. We have amassed a world class library of movies, television drama and animation — the largest and most valuable library ever assembled by a Canadian company. It consists of over 1,000 hours of international rights and more than 8,000 hours of Canadian rights (including nearly 3,000 motion pictures). The growth of our international rights library is propelled by our philosophy to produce proprietary projects. Our Canadian rights library is the beneficiary of our strong theatrical distribution operation which consistently feeds our Canadian library with new titles.

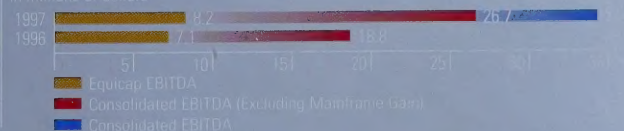
NET EARNINGS

in millions of dollars



EBITDA

in millions of dollars



In the business of filmed entertainment, library revenues are an essential pillar of strength. They represent a steadily increasing high margin income stream from off-balance sheet assets. For a library to generate meaningful revenues it has to achieve a certain critical mass and it must contain some highly desirable lead titles. Alliance's library has both. Since fiscal 1994, library revenues have grown at a compound annual rate of 42% from \$4.5 million to \$13.0 million and all of the titles in our library have been principally fully amortized. We define library revenues as sales of programs after their first cycle, typically three years after completion. There are more aggressive definitions practised in the industry which, in our opinion, mix library revenues with current revenues.

A major portion of Alliance's product is still in its first cycle of exploitation thus ensuring future growth in library revenue as these rights revert to the Company.

2. When we took Alliance public four years ago, we had no broadcast assets. Today, we have three specialty services:

I) Showcase Television, which is now generating operating revenue of \$20 million with a subscriber growth rate of 20,000 households per month.

II) History Television, which even prior to its September 1997 launch, has begun to generate advertising sales.

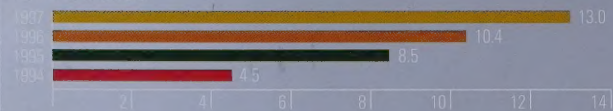
The launching of History Television will bring economies of scale to Showcase Television as the two services share origination facilities, advertising sales force, administration and management.

One of the reasons we acquired the minority interests in Showcase Television was to be free to fully realize upon these efficiencies.

We consider Showcase Television and History Television to be "beachfront properties" as they are among the last specialty services to receive wide national cable carriage. With all analog slots now occupied, future specialty licences in English Canada will likely be issued on the basis of digital carriage only and will require a long period before achieving the level of consumer penetration necessary for profitability.

Our specialty networks have value beyond their earnings multiple. They are irreplaceable. Together with our strength in Canadian theatrical and home video distribution, our broadcast assets provide us with a uniquely diversified reach into the Canadian market.

LIBRARY REVENUE
in millions of dollars



III) Video-On-Demand (in partnership with Shaw Communications) which will bring the video store to the consumer's living room.

All three services are important new opportunities for Alliance's library.

3. In the years since our IPO, we have built a growing animation business from a start-up position. The two computer generated series which we co-produce with Mainframe and distribute world-wide, *ReBoot* and *Beast Wars*, are at the leading edge of CGI. They are widely sold internationally and are in the US market in first-run syndication. Both are ratings hits in Canada where they are among the top-rated shows on YTV.

Our first 2-D conventional animated series, *Captain Star*, is an international co-production with various European partners such as the UK's HTV.

It debuts in Canada in September on the new cartoon network, Teletoon.

An Alliance animation library is now beginning to take shape, containing 91 episodes of high-end animation to which we control international distribution rights.

Our 1994 investment in Mainframe Entertainment has strengthened our balance sheet with a ten-fold after tax cash return on our capital plus a 7% carried interest in the now publicly traded company. While we have reduced our equity position, we have maintained our principal strategic objective through a distribution agreement which provides us with international rights to Mainframe product.

Thanks to our strategic focus, we have carefully laid the groundwork for future growth. We have identified our weak spots and have replaced them with new building blocks, positioning the Company to focus on its strengths.

In closing, we record with great regret the passing of our friend and distinguished colleague, Andrew Sarlos, O.C., LL.D.(Hon), F.C.A., who served Alliance with distinction as a Director of the Company from 1992. He is greatly missed. At the same time, we record with pleasure the election to the Board in 1996 of Donald Sobey, Chairman of the Empire Group. We warmly welcome Mr. Sobey.



TELEVISION GROUP

Alliance's worldwide stature as a supplier of high quality, hit television programming and a magnet for top international talent was confirmed in fiscal 1997. Our television movies attracted top stars and delivered high ratings.

- *The Hunchback*, starring Mandy Patinkin, Richard Harris and Salma Hayek, was the highest-rated classic movie ever on TNT. In Canada, it handily won the time slot for CTV with an audience of 1.8 million. In July 1997, *The Hunchback* was nominated for 4 Prime Time Emmy Awards.



North of 60

A ratings hit on CBC, this indigenous Canadian series has now completed 90 hours of production, starring Tina Keeper and Tom Jackson.

- *Breach of Faith*, *Family of Cops II*, starring Charles Bronson, Angela Featherstone, Barbara Williams and Joe Penny, once again posted strong ratings for CBS, reaffirming the strength of this franchise. The movie won the night in Canada, delivering more than 2 million viewers to CTV.

- *The Inheritance*, starring Meredith Baxter and Tom Conti and sponsored by Kraft Foods, won the night for both CBS and CTV. In July 1997, *The Inheritance* was nominated for a Prime Time Emmy Award.

- *The Morrison Murders*, starring John Corbett, was one of the top-rated movies on USA and won the night on CTV with 1.8 million viewers.

- *Dead Silence*, starring James Garner, Lolita Davidovich and Marlee Matlin, won the night on HBO with a 14.7 rating and 22 share, surpassing all other prime-time averages.

Series highlights for fiscal 1997 include delivery of the final five second-season episodes of the top-rated series, *Due South*; a fifth season, 13 episodes of *North of 60*; a first season, 13 episodes of *Black Harbour*. Including the animation programs discussed later in the Multimedia Group section, Alliance produced and delivered 69 hours of television programming in fiscal 1997, a 21% increase over fiscal 1996's 57 hours.



Television Group Team
from left to right:

Todd Leavitt

Chairman

John Morayniss

Sr. Vice President,
Business and Legal Affairs

Michael Weisbarth

President, Production

Laurie Pozmantier

Executive Vice President,
Production

Ted Gold

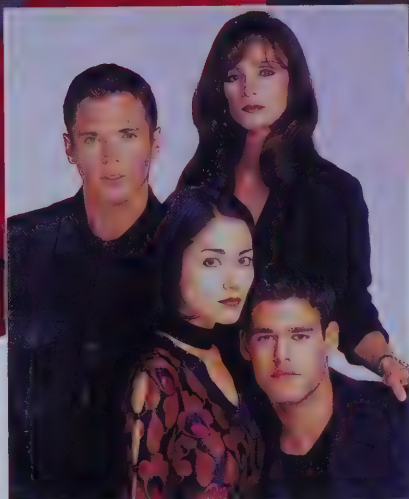
Vice President,
Creative Affairs

Noreen Halpern

Vice President,
Creative Affairs



Above: Paul Gross star of **Due South** – three time winner of Canada's Gemini Award for best dramatic series: 68 episodes to date.



From the "Mozart of Mayhem" John Woo – **Once a Thief**, stars Nicholas Lea, Jennifer Dale, Sandrine Holt and Ivan Sergei: 24 episodes to date.



Inset Top: Critically acclaimed teen drama **Straight Up** stars Evelyn Anders, Mona Atwell and Nicole Crozier: 13 episodes to date.

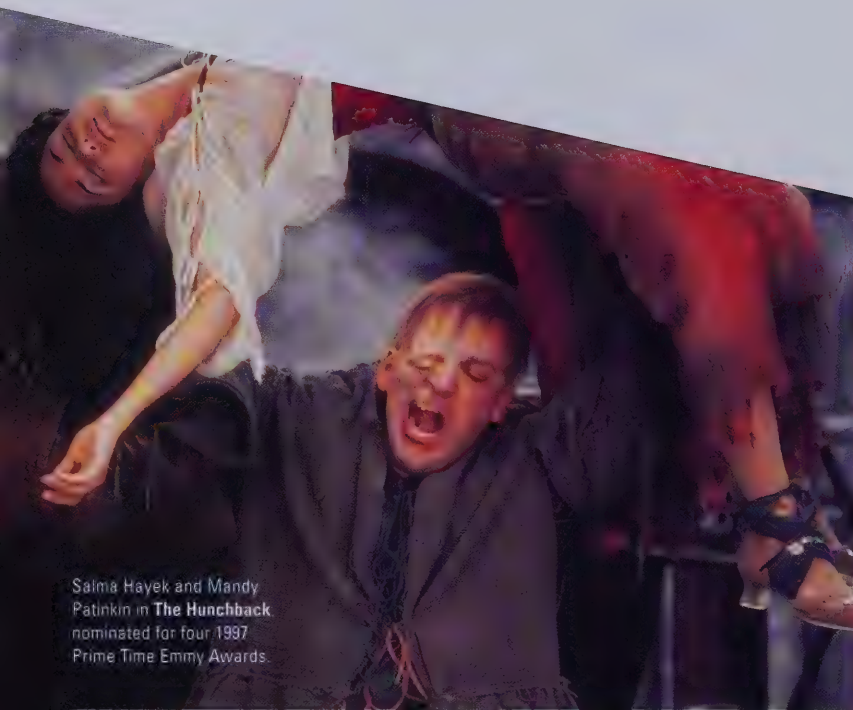


Above: **Mirror, Mirror**, an Australian/New Zealand co-production starring Jovita Shaw: 46 episodes to date.



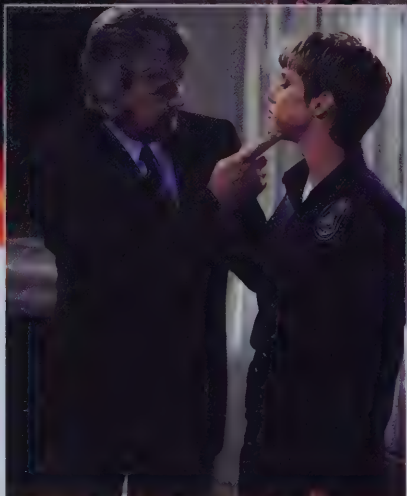
Television Group Team (cont'd.) from left to right: **Jean Michel Ciszewski** Sr. Vice President, International Sales, Alliance Television

Christine Shipton Vice President, Creative Affairs
Ian McCougall Sr. Vice President, Production



Salma Hayek and Mandy Patinkin in **The Hunchback** nominated for four 1997 Prime Time Emmy Awards.

In fiscal 1998, the Company expects to deliver a record slate of 120 hours of television drama including 26 half-hours of animation. The slate includes *Northern Lights*, a television movie starring Academy Award nominee, Diane Keaton; 22 episodes of *Fast Track* starring Keith Carradine; 26 episodes of the new adventure series, *Mowgli*; the movie pilot, *Assault on Devil's Island*, starring Terry "Hulk" Hogan;



Charles Bronson and Angela Featherstone star in **Breach of Faith: Family of Cops II**, a ratings hit on CBS and CTV.



Maya McLaughlin and John Corbett star in **The Morrison Murders**, a top rated movie for USA Network, it won the night on CTV.



Louisa May Alcott's **The Inheritance**, nominated for a 1997 Prime Time Emmy Award, was number one in the

ratings in the US and Canada and stars Meredith Baxter, Thomas Gibson, Cari Shayne and Tom Conti.



Television Group Team (cont'd.) from left to right: **Rose Mangone** Vice President, Publicity and Promotion, Alliance Television

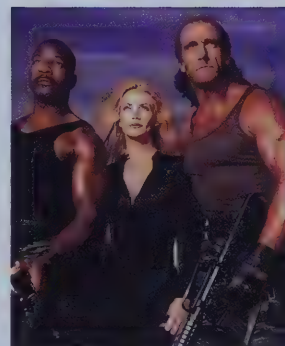
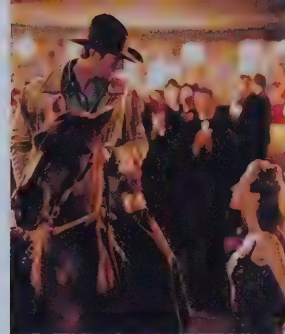
Lisa Pierce Vice President, Marketing, Alliance Television International

24 new episodes of *Due South* starring Paul Gross and Callum Keith Rennie, 22 new episodes of *Once a Thief*, starring Sandrine Holt, Ivan Sergei, Nicholas Lea and Jennifer Dale; a sixth season of *North of 60*; a second season of *Straight Up*; and the first of six new Harlequin romance movies. Our slate is augmented by the acquisition of world-wide rights to the second season of 22 episodes of the Australian/New Zealand co-production, *Mirror Mirror*.

Our product is prominently featured on the schedules of many of the world's leading broadcasters including TF1, BBC, ITV, ProSeiben, ARD, Channel 7, TV3, HBO Ole, Mediaset and RTL4. In Canada, Alliance programming was seen on CTV, CBC, Global, YTV, SRC, TMN (The Movie Network) and Superchannel. In the US, our product was broadcast on CBS, FOX, HBO, TNT, USA, SciFi, with Showtime, TMC (The Movie Channel), with first-run syndication, via PolyGram Television, joining the list in the current year.

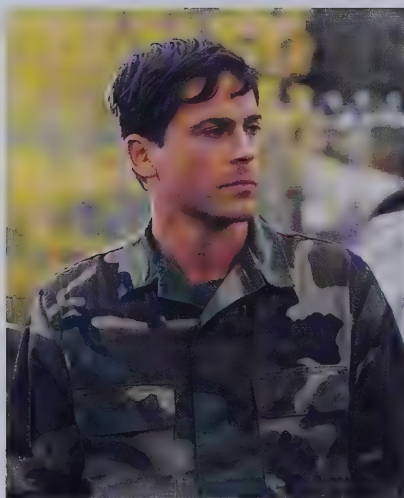


James Garner and Marlee Matlin star in HBO ratings winner, **Dead Silence**.



From top to bottom: A movie pilot for CBC, **Nothing Too Good for a Cowboy**, stars Chad Willett and Sarah Chalke. Keith Carradine stars in **Fast Track**: 22 episodes in production for Showtime, TMN and Superchannel. **Assault on Devil's Island** stars Terry "Hulk" Hogan in a movie pilot for TNT. Diane Keaton and Maury Chaykin star in **Northern Lights**, a movie for Disney Channel.

MOTION PICTURE GROUP



From *Le Monde*: Rob Lowe stars in **Hostile Intent** a top rated movie for HBO.

Our Alliance Pictures unit delivered *Crash* in fiscal 1997. The \$15 million film, written and directed by David Cronenberg, starring James Spader, Holly Hunter, Elias Koteas, Deborah Kara Unger and Roseanna Arquette, and based on the novel by J.G. Ballard, won a Special Jury Prize at the Cannes Film Festival in May 1996. The film's budget was more than covered by presales, locking in profits for Alliance prior to its release. *Crash* has generated world-wide controversy with mixed results at the box office. It became the first Canadian movie to reach #1 at the box office in France in its first week of release. It won the Golden Reel Award for top box office in Canada.

Results in the US on the other hand were disappointing. The world-wide box office for *Crash* to date is \$25 million.

In fiscal 1998, Alliance Pictures completed *The Sweet Hereafter* and will deliver *The Hairy Bird*. *The Sweet Hereafter*, written and directed by Atom Egoyan, was the most decorated film at the 50th Cannes Film Festival in May 1997. It won three prizes including the Grand Prix. The film has been widely sold and is profitable before its initial release. *The Sweet Hereafter* will open the 1997 Toronto International Film Festival in September, and will have a gala screening at the New York Film Festival in October, which will be followed by theatrical release.

The Hairy Bird stars Kirsten Dunst (*Jumanji*), Gaby Hoffman (*Sleepless in Seattle*), Lynn Redgrave (*Shine*), and Vincent Kartheiser (*Indian in the Cupboard*), and will be delivered in the fourth quarter of 1998.



The Motion Picture Group
Team from left to right:
Patrice Theroux
Executive Vice President,
World-wide Distribution
Charlotte Mickie
Sr. Vice President,
Alliance Independent
Films

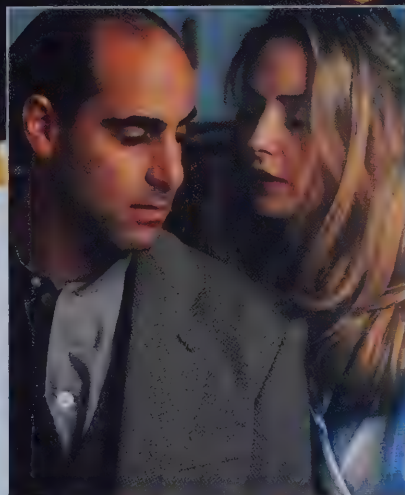
Jill Jones
Vice President,
Marketing
Mark Horowitz
President, Alliance
Pictures International
John Fremes
President, Le Monde
Entertainment



Above: Roseanna Arquette, Holly Hunter and James Spader star in **Crash**, a Special Jury Prize winner at the 1996 Cannes Film Festival.



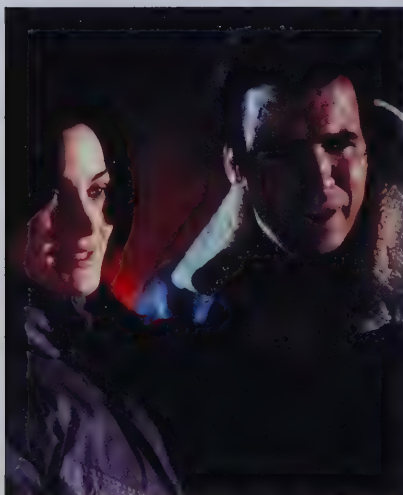
Above: Sundance award winner **In the Company of Men** stars Stacy Edwards and Aaron Eckhart.



Above: Stanley Tucci and Hope Davis star in Deauville award winner **The Daytrippers**.



Left: **His and Hers** from Hal Salwen, director of *Denise Calls Up*.



Top: From Le Monde:
Ms. Bear starring Ed Begley Jr. and **Lethal Tender**, starring Carrie Anne-Moss and Jeff Fahey.

Alliance Pictures is developing new projects with leading international filmmakers including Costa Gavras, Istvan Szabo and David Cronenberg for future production. In motion pictures, the development cycle takes significantly longer than in television. Thus, these new projects are not expected to impact revenues and earnings until fiscal 1999.

The Company's Le Monde unit more than doubled its revenues in fiscal 1997, delivering four new movies in the year. Higher quality projects such as *Lethal Tender* starring Jeff Fahey and Kim Coates, and *Ms. Bear* starring Ed Begley Jr., have resulted in record sales. Le Monde's growth will continue in fiscal 1998 driven by ambitious projects such as *Airborne* starring Steve Guttenberg and *The Fall* starring Craig Scheffer.

Our Alliance Independent Films unit registered strong international sales with the independently produced American films which it acquired. *Welcome to the Dollhouse*, *Denise Calls Up*, and *The Daytrippers* were the top selling titles. Fiscal 1998 has begun with strong sales on the new acquisition *In The Company of Men*.

Our Canadian distribution division, Alliance Releasing, had another exceptional year. The films to which it acquired Canadian rights were nominated for 30 Academy awards and won 12. *The English Patient*, *Sling Blade*, *Shine*, *Secrets and Lies*, *Trainspotting*, *Emma*, and *Kolya*, made for a star-studded distribution slate. Other movies, such as *Michael*, starring John Travolta, *Scream*, starring Drew Barrymore, Neve Campbell, and Courteney Cox, and *First Strike* starring Jackie Chan, also delivered at the box office.



The Motion Picture Group Team (cont'd.)
from left to right:
Andras Hamori
President, Alliance Pictures
Ted East
Vice President,
Alliance Pictures
Andrea Wood
Sr. Vice President,
Business and Legal Affairs,
Alliance Pictures

Mary-Pat Gleeson
Vice President, Marketing,
Alliance Releasing
Ama Maria Muccilli
Vice President,
Publicity and Promotion,
Alliance Releasing
Tony Cianciotta
Sr. Vice President and
General Manager,
Alliance Releasing

The Long Kiss Goodnight, and *Last Man Standing*, delivered disappointing box office numbers but have registered strong home video sales.

Alliance Releasing has ensured a continued stream of top quality product through fiscal 2000 with the signing of renewed distribution agreements with leading US studios Miramax and New Line, and leading UK independent Film Four.



Above: Marianne Jean-Baptiste stars in **Secrets and Lies**.



Above right: **Shine** stars Lynn Redgrave and Geoffrey Rush, Academy Award Winner for Best Actor.



Above: Academy Award winner Billy Bob Thornton stars in **Sling Blade**.



Ralph Fiennes and Kristin Scott Thomas star in the Academy Award winner, **The English Patient**, Alliance Releasing's top grossing movie for fiscal 1997.



Ian Holm stars in Atom Egoyan's **The Sweet Hereafter**, winner of the Grand Prix at the 1997 Cannes Film Festival. It will be released in the Fall.



Video Releasing

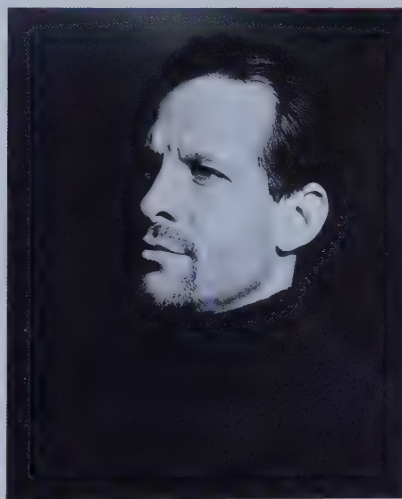
Five of the 175 video titles released by Alliance on home video in fiscal 1997.



Above: Neve Campbell stars in **Scream**.
Above Right: John Travolta stars in **Michael**.



Gwyneth Paltrow stars in **Emma**.



Coming Soon:
from top to bottom:
Gaby Hoffman and
Kirsten Dunst star in
the teenage comedy,
The Hairy Bird.
Steve Guttenberg stars in
Le Monde's new action
picture, **Airborne**.

BROADCASTING GROUP

The highlight of the year for our Broadcasting Group was the successful application for the licence to launch History Television, a specialty network that will premier this Fall on all major Canadian cable systems, bringing subscribers a wide variety of historically themed programming from all over the world.

Advertising revenues at Showcase Television, Alliance's first specialty network, continue to climb, up 73% year over year. Two factors drive the improvement: 1) the establishment of an in-house ad sales unit and, 2) steadily increasing audiences. In July, the CRTC approved Showcase Television's application to amend its licence, permitting a 50% increase in advertising time from 8 to 12 minutes per hour.

The increase in ad time will impact positively on revenues in fiscal 1998. Channel penetration for Showcase Television now stands at 3.5 million households, a gain of more than 400,000 in the year. An agreement with Videotron and CF Cable in Montreal will ensure 4 million subscribers nationwide in fiscal 1998. Alliance increased its equity in the network from 55% to 99%.

Alliance partnered with Shaw Communications and applied for a video on demand (VOD) licence which was recently granted by the CRTC. VOD puts the Company at the forefront of the drive to bring the video store into the consumers' living room. This exciting new technology will provide a new distribution window for Alliance's library. It is expected to begin contributing to revenue in fiscal 1999.



A second window broadcast of **Due South** is a hit on Showcase Television.



The Broadcasting Group Team from left to right:
Bill Dawson
Executive Vice-President and Chief Operating Officer,

Phyllis Yaffe
President and Chief Executive Officer,



HISTORY TELEVISION

Upcoming on History
Television from the BBC.
Above from top to bottom:
Spanish Armada
and, starring Richard E.
Grant, **A Royal Scandal**.



SHOW TELEVISION CASE

Above: Catherine Deneuve,
in Luis Bunuel's masterpiece
Belle de Jour, a Showcase
Television audience favourite.

SHOWCASE TELEVISION ADVERTISING REVENUE in millions of dollars



MULTIMEDIA GROUP

In fiscal 1997, we reduced our equity in CGI animator Mainframe Entertainment. We realized a ten fold after-tax profit on our investment and held a continuing interest in the Company. The Company's international distribution agreement for Mainframe product, signed last year, remains in effect.

We completed 26 new episodes of *Beast Wars* this year in partnership with Mainframe. An additional 13 episodes of *Beast Wars* will be delivered in fiscal 1998, that together with 16 new episodes of *ReBoot*, which Alliance also distributes internationally, will bring to 39 the total number of episodes completed for each series.



Merchandising

Due South novels and a CD are reaching out to new markets.

A move this year into conventional animation has led to *Captain Star*, a co-production with several international partners including the UK's HTV. *Captain Star* will be seen in Canada on the new cartoon specialty channel, Teletoon, beginning this fall.

TMP-THE MUSIC PUBLISHER

Alliance owns 75% of TMP, a company that administers the worldwide rights to a growing library of 4,000 song titles. TMP's catalogue serves as a source of music for Alliance productions such as *Due South*. TMP also placed songs featuring Tina Arena and Amanda Marshall in the movies "One Fine Day" and "Two If By Sea"—products unrelated to Alliance. Revenue for the division improved by more than 80% year over year, from \$1.1 million to \$2 million.



The Multimedia Group
Team from left to right:
Frank Davies
President and Chief
Executive Officer, TMP

Nancy Bassett
Director of
Merchandising and
Licensing



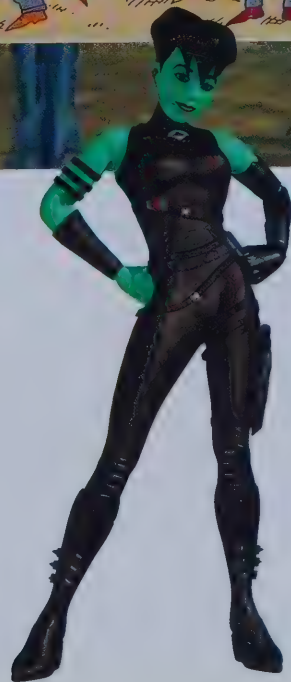
TMP
The Music Publisher

TMP songs are appearing on albums and movie soundtracks generating future publishing revenues.

Above: **Beast Wars™**, with 39 episodes to date is based in Hasbro's Transformer™ toys.

Inset Above: Created by cartoonist Steven Appleby, **Captain Star™** is an international co-production with the UK's HTV. It is now airing on ITV with critical acclaim.

Right: Dot, CGI star of the three-time Gemini Award-winner **ReBoot®** — 39 episodes to date.



EQUICAP

Equicap's tax shelter syndication activities performed strongly once again, slightly above the levels set in fiscal 1995 and 1996. As discussed in the Report to Shareholders, this is likely to be the last full year of contribution by that business.

To partially offset the anticipated decline, Equicap Financial Corporation was formed in fiscal 1997 to expand Equicap's financial services. The division completed six high yield production financings, generating bottom line profits in just six months of operation.

Although we don't expect Equicap Financial to substantially make up the loss of our syndication revenues any time soon, the division does generate high margin revenues which, combined with an increase in lending activity, will guarantee a meaningful contribution to the Company's bottom line in the future.

AIRBUD

s a n c t u a r y

**FUTURE
FEAR**

Some of the projects
financed by **Equicap
Financial Corporation**



From left to right:
Martin Johnson
Vice President

Linda Rosenthal
Vice-President
Robert Beattie
Vice-President
Equicap Financial Corporation

RESULTS OF OPERATIONS

Fiscal 1997 marked renewed earnings growth with record net earnings, revenues and cash flow from operations.

Net earnings for the year ended March 31, 1997 increased 75.0% to \$18.2 million compared to \$10.4 million for the year ended March 31, 1996. Excluding the gain on sale of investment, net earnings in fiscal 1997 increased 26.9% to \$13.2 million. EBITDA increased 42.0% to \$26.7 million for the year ended March 31, 1997 from \$18.8 million for the year ended March 31, 1996.

Revenues in fiscal 1997 increased 5.1% to \$282.6 million compared to fiscal 1996 revenues of \$268.9 million. Revenues increased in all businesses with the exception of Motion Pictures, where revenues declined due to the timing of the delivery of Alliance-produced motion pictures. Gross profit increased 16.2% to \$68.8 million in fiscal 1997 from \$59.2 million in fiscal 1996 while the gross margin increased to 24.3% in fiscal 1997 from 22.0% in fiscal 1996.

Cash flow from operations in fiscal 1997 increased 37.9% to \$240.7 million from \$174.5 million in fiscal 1996.

The following table presents a consolidated financial summary of the Company's businesses.

For the years ended March 31, 1997, March 31, 1996 and March 31, 1995

(In thousands of Canadian dollars)

	1997	%	1996	%	1995	%	% Increase (Decrease)	
							1997 over 1996	1996 over 1995
REVENUES BY BUSINESS:								
Alliance Television	\$ 110,463	39.1	\$ 104,676	38.9	\$ 106,540	45.5	5.5	(1.7)
Alliance Motion Pictures	113,331	40.1	121,416	45.1	100,709	43.1	(6.7)	20.6
Alliance Equicap	24,967	8.8	23,204	8.6	23,582	10.1	7.6	(1.6)
Alliance Broadcasting	19,884	7.0	16,836	6.3	2,586	1.1	18.1	551.0
Alliance Multimedia	13,954	5.0	2,813	1.1	394	0.2	396.1	614.0
Total Revenues	\$ 282,599	100.0	\$ 268,945	100.0	\$ 233,811	100.0	5.1	15.0
DIRECT OPERATING EXPENSES								
BY BUSINESS:								
Alliance Television	\$ 88,699	80.3	\$ 80,486	76.9	\$ 83,282	78.2	10.2	(3.4)
Alliance Motion Pictures	90,762	80.1	109,331	90.0	87,743	87.1	(17.0)	24.6
Alliance Equicap	12,372	49.6	11,920	51.4	11,573	49.1	3.8	3.0
Alliance Broadcasting	11,218	56.4	7,299	43.4	827	32.0	53.7	782.6
Alliance Multimedia	10,765	77.1	753	26.8	260	66.0	1329.6	189.6
Total Direct Operating Expenses	\$ 213,816	75.7	\$ 209,789	78.0	\$ 183,685	78.6	1.9	14.2
GROSS PROFIT BY BUSINESS:								
Alliance Television	\$ 21,764	19.7	\$ 24,190	23.1	\$ 23,258	21.8	(10.0)	4.0
Alliance Motion Pictures	22,569	19.9	12,085	10.0	12,966	12.9	86.8	6.8
Alliance Equicap	12,595	50.4	11,284	48.6	12,009	50.9	11.6	(6.0)
Alliance Broadcasting	8,666	43.6	9,537	56.6	1,759	68.0	(9.1)	442.2
Alliance Multimedia	3,189	22.9	2,060	73.2	134	34.0	54.8	1,437.3
Total Gross Profit	\$ 68,783	24.3	\$ 59,156	22.0	\$ 50,126	21.4	16.3	18.0

FISCAL 1997 COMPARED TO FISCAL 1996

Revenues in fiscal 1997 were \$282.6 million, an increase of \$13.7 million or 5.1%, compared to \$268.9 million in fiscal 1996. This increase was due to revenue growth in all businesses, with the exception of a slight decline in Alliance Motion Pictures.

Alliance Television revenues in fiscal 1997 were \$110.5 million, an increase of \$5.8 million or 5.5%, compared to \$104.7 million in fiscal 1996. This increase was due to an \$8.1 million increase in production revenues, partially offset by a \$2.3 million decrease in distribution revenues. In the current year, 56 hours of television production were delivered compared to 57 hours in the prior year. These hours were comprised of 35 hours of series delivered in fiscal 1997 compared to 46 hours in fiscal 1996, 18 hours of television movies delivered in fiscal 1997 compared to 10 hours in fiscal 1996 and three hours of television pilots delivered in fiscal 1997 compared to one hour in fiscal 1996. On average, therefore, the size of the average hourly production budget increased substantially over the prior year as television movie budgets per hour are generally much higher than television series' budgets per hour. The decreased distribution revenues were due to exceptional revenues being earned in the prior year on certain titles which was not repeated in the same magnitude in the current year.

Alliance Motion Pictures revenues in fiscal 1997 were \$113.3 million, a decrease of \$8.1 million or 6.7%, compared to \$121.4 million in fiscal 1996. This decrease was due primarily to the production division where revenues decreased by \$15.2 million over the prior year from \$32.2 million in fiscal 1996 to \$17.0 million in the current year. In the current year, the production division delivered one motion picture, *Crash*, whereas in the prior year three motion pictures were delivered. In Alliance Releasing, the Company's Canadian distribution business, revenues in fiscal 1997 were \$82.0 million, an increase of \$2.2 million or 2.8%, compared to \$79.8 million in fiscal 1996. Within Alliance Releasing, theatrical revenues increased \$1.4 million compared to the prior year, video revenues decreased \$2.4 million compared to the prior year and television revenues increased \$3.0 million compared to the prior year, due primarily to the timing of the releases in the various media formats. Theatrical successes in the current year included: *The English Patient*; *Shine*; *Michael*; and *Trainspotting*. *Le Monde* revenues were \$11.7 million, an increase of \$7.2 million or 160.0%, compared to \$4.5 million in fiscal 1996 due to the growing library of titles. Top revenue performers in the current year included: *Lethal Tender*; *Dead Silence*; *Hostile Intent*; and *Ravager*. Alliance Independent Films' revenues of \$2.7 million decreased \$2.2 million or 44.9%, compared to \$4.9 million in the prior year due to the decline in the amount of new product acquired and delivered in the current year. Deliveries in the current year included: *Denise Calls Up*; *Welcome to the Dollhouse*; and *When Night is Falling*.

Alliance Equicap revenues in fiscal 1997 were \$25.0 million an increase of \$1.8 million or 7.8%, compared to fiscal 1996 revenues of \$23.2 million due primarily to the success of production services deals in the current year. In addition, the current year's revenues include Equicap Financial Corporation, which started up operations in the fall of 1996. Equicap Financial Corporation closed six deals in the period October 1996 to March 1997 for arrangement fee revenues and interest income of \$0.6 million.

Alliance Broadcasting revenues in fiscal 1997 were \$19.9 million, an increase of \$3.1 million or 18.5%, compared to \$16.8 million in fiscal 1996 due primarily to increased advertising sales. Cable revenues were slightly higher due to an increase in the subscriber base net of the impact of a lower average subscriber rate.

Alliance Multimedia revenues in fiscal 1997 were \$14.0 million, an increase of \$11.2 million or 400.0%, compared to \$2.8 million in fiscal 1996. Distribution revenues of \$12.0 million were recognized in fiscal 1997 as 26 episodes of *Beastwars* were delivered. TMP-The Music Publisher ("TMP") revenues increased to \$2.0 million, an increase of \$0.9 million or 81.8%, compared to \$1.1 million in fiscal 1996 due to the timing of collections of foreign royalties and also from the successes of Amanda Marshall's debut album which contained five TMP songs and the TMP song "Heaven Help My Heart", recorded by both Wynonna Judd and Tina Arena.

Gross profit in fiscal 1997 was \$68.8 million, an increase of \$9.6 million or 16.2%, compared to \$59.2 million in fiscal 1996. This increase was due primarily to Alliance Motion Pictures where the gross profit increased \$10.5 million year-over-year. As a percentage of revenues, gross profit in fiscal 1997 was 24.3%, compared to 22.0% in fiscal 1996, due to increased margins in Alliance Motion Pictures and the change in the revenue mix, partially offset by decreased margins in Alliance Television. The increased margins in Alliance Motion Pictures were due primarily to an increased margin in the production division where the margin improved from - 11.8% on the motion pictures delivered in the prior year to 15.9% on *Crash*, which was delivered in the current year. The decreased margins in Alliance Television were due to the increased production costs per hour of delivering higher quality television movies in the current year such as: *The Hunchback*; *The Inheritance* and *Toe Tags* (pilot) as well as an increased proportion of television movies versus television series. Television series generally have better margins but accounted for a lower percentage of production in fiscal 1997.

Other operating expenses in fiscal 1997 were \$42.0 million, an increase of \$1.6 million or 4.0%, compared to \$40.4 million in fiscal 1996. Other operating expenses as a percentage of revenues decreased slightly to 14.9% compared to 15.0% in fiscal 1996. Other operating expenses are comprised of corporate overhead and operating expenses other than direct operating expenses. These expenses include such items as general and administrative expenses, salaries and benefits, office rental, communications costs and professional fees. In fiscal 1997, \$13.9 million of operating expenses related to corporate overhead, compared to \$12.3 million in fiscal 1996. Corporate overhead included non-recurring charges of \$2.1 million in fiscal 1997: \$1 million relating to Equicap bonus costs; \$600,000 relating to the Company's unsuccessful UK franchise bid; and \$500,000 relating to head office moving costs, compared to \$1.3 million in fiscal 1996: \$800,000 relating to severance costs; and \$500,000 relating to the Company's unsuccessful efforts to acquire the broadcast assets of John Labatt Limited. Before non-recurring charges, corporate overhead increased to \$11.8 million in fiscal 1997 from \$11.0 million in fiscal 1996. The increase in other operating expenses was primarily due to head count increases in new and expanding businesses such as Alliance Pictures International and Equicap Financial Corporation.

Net interest expense in fiscal 1997 was \$1.3 million, an increase of \$0.4 million or 44.4%, compared to \$0.9 million in fiscal 1996, reflecting increased cash requirements in the current year, partially offset by the equity offering proceeds and lower interest rates.

The Company's effective tax rate for fiscal 1997 increased to 35.0% from 15.7% in fiscal 1996 due to a shift in the mix of earnings before income taxes to income tax jurisdictions with less favourable income tax rates. In addition, in the current year, the gain on sale of investment was taxed at approximately 34%.

Net earnings in fiscal 1997 were \$18.2 million, an increase of \$7.8 million or 75.0%, compared to \$10.4 million in fiscal 1996.

FISCAL 1996 COMPARED TO FISCAL 1995

Revenues in fiscal 1996 were \$268.9 million, an increase of \$35.1 million or 15.0%, compared to \$233.8 million in fiscal 1995. This increase was due primarily to significant revenue growth in Alliance Motion Pictures, as well as the inclusion of revenues for a full year in Alliance Broadcasting, which started commercial operations in January 1995.

Alliance Television revenues in fiscal 1996 were \$104.7 million, a decrease of \$1.8 million or 1.7%, compared to \$106.5 million in fiscal 1995. This decrease was due primarily to lower international revenues partially offset by higher North American revenues.

Alliance Motion Pictures revenues in fiscal 1996 were \$121.4 million, an increase of \$20.7 million or 20.6%, compared to \$100.7 million in fiscal 1995. This increase was due primarily to increased revenues in Alliance Releasing, where revenues in fiscal 1996 were \$79.8 million, an increase of \$21.3 million or 36.4%, compared to \$58.5 million in fiscal 1995. Within Alliance Releasing, this increase was due primarily to increased Canadian home video revenues as a result of a number of successful home video releases, including Pulp Fiction, Mortal Kombat, Don Juan DeMarco and Johnny Mnemonic, as well as the continued exploitation of Dumb and Dumber, The Swan Princess and The Mask, which were released theatrically in fiscal 1995. These increases were slightly offset by a \$3.0 million decrease in Canadian theatrical revenues in fiscal 1996.

Alliance Equicap revenues in fiscal 1996 were \$23.2 million which was approximately the same as fiscal 1995. In fiscal 1996, Equicap focused on structured production financings, which provided private investors with access to tax incentives provided by the Canadian government.

Alliance Broadcasting revenues in fiscal 1996 were \$16.8 million, an increase of \$14.2 million or 546.2%, compared to \$2.6 million in fiscal 1995. This increase was due primarily to fiscal 1996 revenues reflecting the first full year of operations of Showcase, while the previous year reflected only one quarter of operations. Revenues were recognized in the first quarter of operations.

Alliance Multimedia revenues in fiscal 1996 were \$2.8 million, an increase of \$2.4 million or 600.0%, compared to \$0.4 million in fiscal 1995. Distribution revenues of \$1.7 million were recognized in fiscal 1996 as episodes of ReBoot were delivered to YTV. Fiscal 1996 also reflected the first full year of operations of TMP where revenues were \$1.1 million, an increase of \$0.7 million or 175.0%, compared to \$0.4 million in fiscal 1995.

Gross profit in fiscal 1996 was \$59.2 million, an increase of \$9.1 million or 18.2%, compared to \$50.1 million in fiscal 1995. This increase was due primarily to the inclusion of gross profit realized from Showcase Television's first full year of operations and distribution revenues realized upon the delivery of ReBoot. Gross profit in fiscal 1996 was 22.0%, compared to 21.4% in fiscal 1995, due to the change in the revenue mix and increased margins in Alliance Television, partially offset by decreased margins in Alliance Motion Pictures. Decreased margins in Alliance Motion Pictures were due primarily to an increase in the provision for investment in film and television programs in fiscal 1996. In addition, margins on films delivered in fiscal 1996 were not as favourable as the margins on films delivered in fiscal 1995.

Other operating expenses in fiscal 1996 were \$40.4 million, an increase of \$11.8 million or 41.3%, compared to \$28.6 million in fiscal 1995. In fiscal 1996, \$12.3 million of other operating expenses related to corporate overhead, compared to \$11.7 million in fiscal 1995. Corporate overhead included non-recurring charges of \$1.3 million in fiscal 1996 compared to \$0.6 million in fiscal 1995. Before non-recurring charges, corporate overhead decreased to \$11.0 million in fiscal 1996 from \$11.1 million in fiscal 1995. The overall increase in other operating expenses was due to expansion of the Los Angeles office and international operations, increased expenses in Alliance Broadcasting associated with Showcase Television's first full year of operations, overall head count and wage increases and certain one-time expenditures, such as severance costs and costs associated with the company's unsuccessful efforts to acquire the broadcast assets of John Labatt Limited.

Net interest expense in fiscal 1996 was \$0.9 million, an increase of \$0.6 million or 200.0%, compared to \$0.3 million in fiscal 1995, reflecting increased interest costs as the opening cash balance was drawn down early in the fiscal year to finance production costs, acquisitions of distribution product and development costs.

The Company's effective tax rate for fiscal 1996 decreased to 15.7% from 22.0% in fiscal 1995 due to a shift in the mix of earnings before income taxes to non-Canadian operations with favourable income tax rates.

Net earnings in fiscal 1996 were \$10.4 million, a decrease of \$2.6 million or 20.0%, compared to \$13.0 million in fiscal 1995.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations increased significantly during fiscal 1997 to \$240.7 million from \$174.5 million for fiscal 1996 and \$169.1 million for fiscal 1995. Earnings before interest, provision for income taxes, depreciation, amortization and minority interest ("EBITDA") increased to \$26.7 million during fiscal 1997 after dropping to \$18.8 million in fiscal 1996 from \$21.5 million in fiscal 1995.

Alliance has traditionally financed its working capital requirements principally through cash generated by operations, revolving bank credit facilities and sales of equity. The greatest demand for working capital exists in the start-up phase of production, which traditionally occurs in August and September, although it is progressively becoming less and less seasonal in nature as the company diversifies its business.

The nature of the Company's business is such that significant initial expenditures are required to produce and acquire television programs and films, while revenues from these television programs and films are earned over an extended period of time after their completion and acquisition. As Alliance's activities grow, its financing requirements are expected to grow. The Company believes it has sufficient resources to fund its operations through fiscal 1998 from cash generated by operations, existing bank facilities and the net proceeds of the U.S. equity offering in August 1996.

Alliance typically borrows from banks to provide interim production financing. All revenues associated with these productions are pledged as security for these loans. The majority of these borrowings relate specifically to television program and film production.

On October 28, 1994, prior to the reorganization of the share capital of the Company, the Company issued an unsecured, subordinated 6.5% convertible debenture maturing April 5, 2002 to Onex Corporation for \$16.5 million cash. The debenture is convertible into common shares of the Company at any time at \$19 per share. Interest is payable in cash or additional convertible debentures at the Company's option. Commencing October 28, 1999, the debenture or any portion thereof will be redeemable at the option of the Company, provided certain conditions are met, at the issue price, together with accrued and unpaid interest to the date of redemption. The debenture provides the Company with the option to pay for the redemption of the debenture by issuing common shares to the debenture holder at a price equal to 90% of the weighted average trading price of the common shares for the last 20 consecutive trading days prior to redemption or the maturity date.

In fiscal 1995, the Company obtained a \$75 million credit facility from a Canadian chartered bank. The bank facility provided for a \$20 million demand operating line, a \$50 million term production financing facility and a \$5 million facility to hedge foreign exchange exposure.

In August 1996, the Company completed a cross-border offering of 3,020,000 class B non-voting shares for net proceeds of \$32.9 million.

In December 1996, the Company's bank facility was increased to \$122 million to provide for a \$65 million demand operating line, a \$50 million term production financing facility, a \$5 million facility to hedge foreign exchange exposure and a \$2 million lease facility. As at March 31, 1997, the Company had loans outstanding under its term production facility on productions in progress in the amount of \$15.9 million. The Company applied \$12.5 million of its cash against the \$15.9 million loans for net operating loan and bank indebtedness of \$3.4 million as at March 31, 1997. See note 5 to the Consolidated Financial Statements.

In March 1997, Equicap Financial Corporation obtained a \$25 million non-recourse revolving line of credit with a Canadian Chartered bank. The line of credit forms part of the funds made available for film projects financed by Equicap Financial Corporation.

RISKS AND UNCERTAINTIES

The Company capitalizes production and distribution costs as incurred to investment in film and television programs and such costs are amortized to direct operating expenses in accordance with SFAS 53. Under SFAS 53, all costs incurred in connection with an individual film or television program, including production costs, release prints and advertising costs, are capitalized as investment in film and television programs. These costs are stated at the lower of unamortized cost and estimated net realizable value. Estimated total production costs for an individual film or television program are amortized in the proportion that revenues realized relates to management's estimate of the total revenues expected to be received from such film or television program. As a result, if revenue estimates change with respect to a film or television program, the Company may be required to write down all or a portion of the unamortized costs of such film or television program. No assurance can be given that a write down will not have a significant impact on the Company's results of operations and financial condition.

Results of operations for any period are significantly dependent on the number and timing of television programs and films delivered or made available to various media. Consequently, the Company's results of operations may fluctuate materially from period to period and the results for any one period are not necessarily indicative of results for future periods. Ultimately, profitability depends not only on revenues but on the amount paid to acquire or produce the film or television program and the amount spent on the prints and advertising campaign used to promote it.

The Company currently finances a portion of its production budgets from Canadian governmental agencies and incentive programs, such as Telefilm Canada and federal and provincial tax credits, as well as international sources in the case of the Company's co-productions. There can be no assurance that local cultural incentive programs which the Company may access in Canada and internationally, will not be reduced, amended or eliminated. Any change in these incentive programs may have an adverse impact on the Company.

A significant portion of the Company's revenues and expenses is in U.S. dollars, and therefore subject to fluctuation in exchange rates. There is risk that a significant fluctuation in exchange rates may have an adverse impact on the Company's results of operations.

Commissions earned by Alliance Equicap have been principally related to sales of limited partnership units to private investors in connection with structured production financings. Recent changes to Canadian income tax legislation have eliminated tax incentives available to investors in connection with certain financings. Consequently, it is expected that Alliance Equicap's revenues in fiscal 1998 will be substantially less than in fiscal 1997.

OUTLOOK

The Company achieved record results in fiscal 1997 and plans to continue to build on this success. The Company will continue to pursue its long term strategy of expanding its libraries and increasing its direct distribution reach. The Company's proven ability to deliver and distribute high quality product combined with its strong financial position, makes it well positioned to achieve its aggressive growth strategy.

QUARTERLY REVIEW

The business of the Company fluctuates during the year as indicated by the table below, which summarizes quarterly results for the fiscal year ended March 31, 1997:

(In thousands of Canadian dollars except share information)

	1st Qtr.	2nd Qtr.	3rd. Qtr.	4th Qtr.	Total
Revenues	\$ 63,516	\$ 54,617	\$ 64,956	\$ 99,510	\$ 282,599
Gross Profit	12,402	15,688	16,066	24,627	68,783
EBITDA	3,026	3,529	6,850	13,341	26,746
Net Earnings	955	6,260	4,081	6,892	18,188
Basic Earnings Per Share	\$ 0.10	\$ 0.53	\$ 0.32	\$ 0.53	\$ 1.53

To the shareholders of Alliance Communications Corporation:

We have audited the consolidated balance sheets of Alliance Communications Corporation as at March 31, 1997 and 1996 and the consolidated statements of earnings and retained earnings and changes in financial position for each of the years in the three year period ended March 31, 1997. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at March 31, 1997 and 1996 and the results of its operations and the changes in its financial position for each of the years in the three year period ended March 31, 1997 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

North York, Ontario, Canada

May 30, 1997

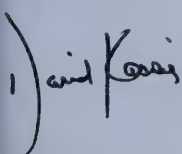
(except as to note 21 which is as of June 17, 1997)

As at March 31, 1997 and March 31, 1996

(In thousands of Canadian dollars)

	1997	1996
ASSETS		
Cash and short-term investments	\$ 10,777	\$ 5,090
Accounts receivable	82,184	53,081
Distribution contracts receivable	76,272	64,948
Loans receivable	9,283	-
Investment in film and television programs (note 2)	101,531	63,274
Film and television programs in progress	22,955	22,398
Program exhibition rights	11,821	9,151
Development costs and investment in scripts	13,103	7,762
Property and equipment (note 3)	10,314	6,848
Broadcasting licences, net of accumulated amortization of \$30 (1996 - \$nil)	7,236	-
Other assets (note 4)	8,246	6,346
	<u>\$ 353,722</u>	<u>\$ 238,898</u>
LIABILITIES		
Operating loan and bank indebtedness (note 5)	\$3,361	\$ 5,617
Accounts payable and accrued liabilities	86,268	47,440
Distribution revenues payable	23,223	26,238
Loans payable (note 6)	-	2,083
Income taxes (note 12)	10,927	10,818
Deferred revenue	62,980	32,706
Convertible debenture (note 7)	16,500	16,500
Minority interest	39	2,116
	<u>203,298</u>	<u>143,518</u>
SHAREHOLDERS' EQUITY		
Capital stock (note 8)	88,836	52,295
Retained earnings	60,893	42,705
Cumulative translation adjustments	695	380
	<u>150,424</u>	<u>95,380</u>
	<u>\$ 353,722</u>	<u>\$ 238,898</u>

Signed on behalf of the Board,



David J. Kassie
Director



Ellis Jacob
Director

The accompanying notes form an integral part of these financial statements.

CONDENSED STATEMENTS OF EARNINGS AND RETAINED EARNINGS
TELUS COMMUNICATIONS CORPORATION

For the years ended March 31, 1997, March 31, 1996 and March 31, 1995

(In thousands of Canadian dollars, except per share data)

	1997	1996	1995
REVENUES	\$ 282,599	\$ 268,945	\$ 233,811
DIRECT OPERATING EXPENSES	213,816	209,789	183,685
GROSS PROFIT	68,783	59,156	50,126
OTHER EXPENSES			
Other operating expenses	42,037	40,363	28,643
Amortization	5,160	5,038	5,164
Interest (note 10)	1,296	893	282
Minority interest	(142)	562	(596)
	48,351	46,856	33,493
EARNINGS BEFORE UNDERNOTED	20,432	12,300	16,633
GAIN ON SALE OF INVESTMENT (NOTE 11)	7,544	-	-
EARNINGS BEFORE INCOME TAXES	27,976	12,300	16,633
PROVISION FOR INCOME TAXES (NOTE 12)	9,788	1,935	3,658
NET EARNINGS FOR THE YEAR	18,188	10,365	12,975
RETAINED EARNINGS, BEGINNING OF YEAR	42,705	32,340	19,365
RETAINED EARNINGS, END OF YEAR	\$ 60,893	\$ 42,705	\$ 32,340
BASIC EARNINGS PER COMMON SHARE (NOTE 13)	\$ 1.53	\$ 1.05	\$ 1.36

The accompanying notes form an integral part of these financial statements

For the years ended March 31, 1997, March 31, 1996 and March 31, 1995
(In thousands of Canadian dollars)

	1997	1996	1995
CASH AND SHORT-TERM INVESTMENTS PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Net earnings for the year	\$ 18,188	\$ 10,365	\$ 12,975
Items not affecting cash:			
Amortization of investment in film and television programs	190,226	185,534	169,460
Amortization of program exhibition rights	9,363	6,807	-
Amortization of development costs and investment in scripts	2,351	1,800	1,342
Amortization of property and equipment and pre-operating costs	2,401	2,934	3,518
Amortization of broadcasting licences and goodwill	408	304	304
Gain on sale of investment (note 11)	(7,544)	-	-
Minority interest	(142)	562	(596)
Deferred income taxes	3,529	1,594	3,284
Net changes in other non-cash balances related to operations (note 14)	21,950	(35,373)	(21,173)
	240,730	174,527	169,114
INVESTING ACTIVITIES			
Investment in films and television programs	(228,483)	(188,156)	(177,414)
Film and television programs in progress	(557)	7,516	(5,328)
Program exhibition rights	(12,033)	(6,333)	(10,236)
Development costs and investment in scripts	(7,692)	(5,226)	(2,278)
Net additions to property and equipment	(5,237)	(2,973)	(6,280)
Net proceeds from sale of investment (note 11)	7,684	-	-
Business acquisitions	(9,425)	135	(2,765)
Cash balances of acquired businesses	-	-	4,308
Long-term investments	(2,219)	(992)	(617)
	(257,962)	(196,029)	(200,610)
FINANCING ACTIVITIES			
Operating loan and bank indebtedness	(2,256)	5,617	-
Increase in loans receivable	(9,283)	-	-
Increase (decrease) in loans payable	(2,083)	712	1,086
Issue of convertible debenture	-	-	16,500
Issue of common shares	36,541	1,403	21,818
Exercise of warrants	-	-	(20,984)
	22,919	7,732	18,420
INCREASE (DECREASE) IN CASH AND SHORT-TERM INVESTMENTS	5,687	(13,770)	(13,076)
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	5,090	18,860	31,936
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	\$ 10,777	\$ 5,090	\$ 18,860

The accompanying notes form an integral part of these financial statements

Alliance Communications Corporation ("the Company") is a fully integrated global supplier of entertainment products whose origins are in television and motion picture production and distribution. The Company also has interests in broadcasting, computer generated animation facilities, music publishing and financing services.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Generally Accepted Accounting Principles

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). These principles conform in all material respects with the accounting principles generally accepted in the United States ("U.S. GAAP") except as described in note 20.

(b) Principle of Consolidation

The consolidated financial statements include the accounts of Alliance Communications Corporation and all of its subsidiaries.

(c) Revenue Recognition

Revenue is derived from sale of distribution rights and equity in productions and theatrical or television exhibition. Revenue is recognized as earned when the film or television program is completed and delivered, when amounts are due from the exhibitor or when a contract is executed that irrevocably transfers distribution rights to a licensee or equity to an investor, and there is reasonable assurance of collectability of proceeds.

The Company recognizes as revenue only the net benefits from sales to limited partnerships when the investor has irrevocably committed to acquire the related equity.

Fees related to loan origination, including loan restructuring or renegotiating, are recognized as revenue over the expected term of the loan.

Cable service subscriber fee revenue is accrued as earned. Advertising revenue is recognized when advertisements are aired.

Revenue for music publishing is derived from the collection of royalties on the rights owned and is recognized when received.

Amounts received and receivable and not recognized as revenue are included in deferred revenue.

(d) Short-term Investments

Short-term investments are carried at the lower of cost and market value.

(e) Loans Receivable

Loans receivable are stated net of unearned income and an allowance for credit losses. An allowance for credit losses is maintained in an amount considered adequate to absorb estimated credit-related losses. The allowance is increased by provisions for credit losses which are charged to income, and reduced by write-offs net of expected recoveries. The Company conducts ongoing credit assessments of its loan portfolio on an account-by-account basis and establishes specific allowances when doubtful accounts are identified.

(f) Investment in Film and Television Programs

Investment in film and television programs represents the unamortized costs of motion picture and television programs which have been produced by the Company or for which the Company has acquired distribution rights. Such costs include all production, print and advertising costs which are expected to be recovered from future revenues, net of estimated future liabilities related to the product.

Amortization is determined based on the ratio that current revenues earned from the film and television programs bear to expected gross future revenues. Based on management's estimates of gross future revenues as at March 31, 1997, it is expected that the investment in film and television programs will be absorbed principally over the next three years.

Investment in film and television programs is written down to the net recoverable amount if the investment is greater than the net recoverable amount. Net recoverable amount is defined as the total future revenues expected to be earned from film and television programs, net of future costs.

(g) Film and Television Programs in Progress

Film and television programs in progress represents the accumulated costs of uncompleted motion picture and television programs which are being produced by the Company.

(h) Program Exhibition Rights

Program exhibition rights represents the rights to various long-term contracts acquired from third parties to broadcast television programs and motion pictures. Program exhibition rights and corresponding liabilities are recorded at the time the Company becomes committed under a license agreement and the product is available for telecast. The carrying value of the program exhibition rights is amortized over the lesser of two years and the contracted exhibition period beginning in the month the film or television program is premiered.

(i) Development Costs and Investment in Scripts

Development costs and investment in scripts represents expenditures made on projects prior to production. Advances or contributions received from third parties to assist in development are deducted from these expenditures. Upon commencement of production, development costs and investment in scripts are charged to the production. Development costs and investment in scripts are amortized on the straight-line basis over three years commencing in the year following the year such costs are incurred when production has not commenced. Development costs and investment in scripts are written off when determined not to be recoverable.

(j) Government Financing and Assistance

The Company has access to several government programs that are designed to assist film and television production and distribution in Canada. Amounts received in respect of production assistance are recorded as revenue in accordance with the Company's revenue recognition policy for completed film and television programs. Government assistance with respect to distribution rights is recorded as a reduction of investment in film and television programs. Government assistance towards current expenses is included in net earnings for the year.

(k) Property and Equipment

Property and equipment are carried at cost less accumulated amortization. Amortization is provided, commencing in the year after acquisition, using the following rates and methods:

- Computer hardware
 - 30% principally by declining balance
- Computer software
 - 100% principally by declining balance
- Furniture and fixtures
 - 20% principally by declining balance
- Equipment
 - 30% principally by declining balance
- Leasehold improvements
 - straight-line over the lease term
- Broadcast and transmission equipment
 - straight-line over 5 years

(l) Broadcasting Licences

In acquisitions involving broadcasting undertakings, fair value is assigned to the broadcasting licences acquired. Broadcasting licences are amortized on a straight-line basis over a period of forty years. When there is an expectation that the net carrying amount of the licence will not be recovered, the licence is written down to its net recoverable amount.

(m) Other Assets

Other assets include pre-operating costs related to the period before commencement of commercial operations of Showcase Television Inc. and other businesses. The amount is being amortized on a straight-line basis over a period of five years.

Other assets also include long-term investments which are accounted for at cost when the conditions for equity accounting are not present and goodwill which is amortized on a straight-line basis over a period of five years.

(n) Distribution Revenues Payable

Distribution revenues payable represents the excess of receipts from the distribution of film and television programs over commissions earned and distribution costs incurred and are payable to the licensor of the film or television program.

(o) Foreign Currency

Assets and liabilities denominated in currencies other than Canadian dollars are translated at exchange rates in effect at the balance sheet date. Revenue and expense items are translated at average rates of exchange for the year. Translation gains or losses are included in the determination of earnings except for gains or losses arising on the translation of the accounts of the foreign subsidiaries considered to be self-sustaining, which are deferred as a separate component of shareholders' equity.

(p) Non-Cash Balances Related to Operations

Non-cash balances related to operations are comprised of the aggregate of the following assets and liabilities: accounts receivable; distribution contracts receivable; other assets excluding long-term-investments and goodwill; accounts payable and accrued liabilities; distribution revenues payable; income taxes; deferred revenue; and cumulative translation adjustments.

(q) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(r) Comparative Amounts

Certain amounts presented in the prior period have been reclassified to conform with the presentation adopted in the current year.

2. INVESTMENT IN FILM AND TELEVISION PROGRAMS

(In thousands of Canadian dollars)

	1997	1996
Completed film and television programs produced, net of amortization	\$ 37,218	\$ 22,837
Film and television programs acquired, net of amortization	64,313	40,437
	\$ 101,531	\$ 63,274

The Company expects that 92% of completed film and television programs produced, net of amortization, and 72% of acquisition costs related to film and television programs acquired, net of amortization, will be amortized during the three year period ending March 31, 2000.

The Company earns revenues from films and television programs which are fully amortized and are not valued in the accounts.

3. PROPERTY AND EQUIPMENT

(In thousands of Canadian dollars)

	1997		1996	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer hardware and software	\$ 5,243	\$ 2,142	\$ 4,040	\$ 1,387
Furniture and fixtures	3,206	985	2,061	742
Equipment	1,438	975	1,316	704
Leasehold improvements	4,340	881	1,876	771
Broadcast and transmission equipment	1,570	500	1,482	323
	15,797	5,483	10,775	3,927
Net property and equipment		\$ 10,314		\$ 6,848

4. OTHER ASSETS

(In thousands of Canadian dollars)

	1997	1996
Pre-operating costs, net of accumulated amortization of \$1,338 (1996 - \$708)	\$ 2,507	\$ 2,231
Prepaid expenses	1,344	1,622
Long-term investments	3,688	1,609
Goodwill, net of accumulated amortization of \$1,162 (1996 - \$784)	707	884
	\$ 8,246	\$ 6,346

5. OPERATING LOAN AND BANK INDEBTEDNESS

(In thousands of Canadian dollars)

	1997	1996
Bank indebtedness - gross	\$ 15,871	\$ 18,760
Interest expense on bank indebtedness	\$ 1,010	\$ 961
Weighted average interest rate	6.09%	9.04%

Operating loan and bank indebtedness is netted on the balance sheet with cash and short-term investments to the extent a right of offset exists.

The Company's assets and the assets of its subsidiaries have been pledged as collateral for the bank indebtedness.

At March 31, 1997, the Company had unused credit facilities aggregating \$131,729,000 (1996 - \$61,240,000) subject to margin calculations. These facilities are primarily used for bridge financing of productions.

6. LOANS PAYABLE

(In thousands of Canadian dollars)

	1997	1996
Interest bearing loans at prime plus 1%, unsecured with no specific repayment date	\$ nil	\$ 2,083

7. CONVERTIBLE DEBENTURE

On October 28, 1994, the Company issued a convertible, unsecured, subordinated debenture for \$16,500,000 cash, bearing interest at 6.5% per year and maturing on April 5, 2002. The debenture is convertible at the option of the holder into common shares of the Company at any time after October 28, 1995 at a conversion price of \$19 per share. Interest is payable in cash or additional convertible debentures at the Company's option.

Commencing October 28, 1999, the debenture will be redeemable at the option of the Company, provided certain conditions are met, at the issue price, together with accrued and unpaid interest to the date of redemption. The Company has the option to pay for the redemption of the debenture by issuing its own common shares to the debenture holder at a price equal to 90% of the weighted average trading price of the common shares for the last 20 consecutive trading days prior to redemption or the maturity date.

8. CAPITAL STOCK

a) The authorized capital stock of the Company consists of an unlimited number of common shares. The common shares are comprised of Class A Voting Shares (the "Voting Shares") and Class B Non-Voting Shares (the "Non-Voting Shares") which have identical attributes except that the Non-Voting Shares are non-voting and each of the Voting Shares is convertible at any time at the holder's option into one fully paid and non-assessable Non-Voting Share. The Non-Voting Shares may be converted into Voting Shares only in certain circumstances.

b) During fiscal 1997, the following transactions occurred:

In August 1996, 3,020,000 Non-Voting Shares were issued pursuant to a public offering at a gross price of US\$8.50 per share for proceeds of CDN\$32,920,000, net of issue expenses and income tax benefits;

In September 1996, 10,000 Non-Voting Shares were issued in connection with the acquisition of film and television programs at \$13.62 per share for proceeds of \$136,000;

In January 1997, 95,421 Non-Voting Shares were issued in connection with a long-term investment in another company at \$11.79 per share for proceeds of \$1,125,000;

In January and February 1997, 162,807 Non-Voting Shares were issued in connection with the acquisition of an additional 44% ownership interest in Showcase Television Inc. at \$11.84 per share for proceeds of \$1,927,000 (note 9); and

During fiscal 1997, 62,100 Voting Shares were converted into Non-Voting Shares. In addition, 37,020 employee stock options for 18,509 Voting Shares and 18,511 Non-Voting Shares were exercised pursuant to the Company stock option plan for proceeds of \$433,000.

c) During fiscal 1996, the following transactions occurred:

On April 26, 1995, the Company reorganized its share capital and created the Voting Shares and Non-Voting Shares, converted each existing common share into one-half of a Voting Share and one-half of a Non-Voting Share, and cancelled all of the existing authorized and issued common shares; and

During fiscal 1996, 117,478 employee stock options were exercised pursuant to the Company stock option plan for proceeds of \$1,403,000.

d) During fiscal 1995, the following transactions occurred:

In May 1994, 1,530,000 shares were issued pursuant to the exercise of 1,530,000 warrants to acquire common shares and the receipt of proceeds of \$20,984,000 released from escrow net of issue expenses and income tax benefits;

In October 1994, 13,900 shares were issued in connection with the purchase of a 75% interest in Partisan Music Productions Inc., carrying on business as TMP - The Music Publisher, at \$16.33 per share for aggregate proceeds of \$227,000; and

During fiscal 1995, 51,936 employee stock options were exercised pursuant to the Company stock option plan for proceeds of \$607,700.

e) As a result, the issued capital stock is as follows:

(In thousands of Canadian dollars)

	1997	1996
Common shares:		
Voting Shares, 4,905,134 (1996 - 4,948,725)	\$ 26,057	\$ 26,169
Non-Voting Shares, 8,313,882 (1996 - 4,945,043)	62,779	26,126
	\$ 88,836	\$ 52,295

f) The Company has an Amended and Restated 1993 Employee Stock Option Plan which provides for the issuance of up to 1,750,000 common shares. These options generally vest in equal annual amounts over three to five years. No options are exercisable for periods of more than ten years after date of grant. Options granted under the plan may not have an option price less than the fair market value of the Non-Voting Shares on the date the option is granted.

Options outstanding were split 50% Voting Shares and 50% Non-Voting Shares on May 15, 1995. All new options granted after May 15, 1995 are options to purchase Non-Voting Shares.

Stock option activity for 1995, 1996 and 1997 is as follows:

(In thousands of Canadian dollars)

	Number of Shares			Weighted Average Exercise Price
	Voting	Non-Voting	Total	
Outstanding at March 31, 1994	360,633	360,633	721,266	\$ 11.80
Granted	276,203	276,203	552,406	14.24
Exercised	(25,968)	(25,968)	(51,936)	13.29
Cancelled	(14,850)	(14,850)	(29,700)	11.34
Outstanding at March 31, 1995	596,018	596,018	1,192,036	12.88
Granted	-	537,520	537,520	14.75
Exercised	(58,739)	(58,739)	(117,478)	11.70
Cancelled	(99,409)	(99,416)	(198,825)	12.85
Outstanding at March 31, 1996	437,870	975,383	1,413,253	13.69
Granted	5,000	121,120	126,120	14.25
Exercised	(18,509)	(18,511)	(37,020)	11.71
Cancelled	(17,934)	(17,925)	(35,859)	12.85
Outstanding at March 31, 1997	406,427	1,060,067	1,466,494	\$ 13.81
Exercisable at March 31, 1997	291,628	503,604	795,232	\$ 13.20
Exercisable at March 31, 1996	216,962	216,962	433,924	12.47
Exercisable at March 31, 1995	172,943	172,944	345,887	11.78

At March 31, 1997, 1,466,494 options were outstanding with exercise prices ranging from \$11.70 to \$16.375 and with a weighted average remaining contractual life of 4.9 years.

9. BUSINESS ACQUISITIONS

During fiscal 1997, the Company acquired an additional 44% ownership interest in Showcase Television Inc. for total consideration of \$9,207,000. The consideration was in the form of \$7,280,000 cash and 162,807 common shares of the Company. The fair value assigned to the broadcasting licence in this acquisition was \$7,266,000. After completion of this acquisition, the Company had a 99% ownership interest in Showcase Television Inc.

10. INTEREST

(In thousands of Canadian dollars)

	1997	1996	1995
Interest expense on long-term debt	\$ 1,073	\$ 1,195	\$ 476
Interest income	(1,282)	(1,550)	(359)
Other	1,505	1,248	165
	\$ 1,296	\$ 893	\$ 282

Interest paid for the year ended March 31, 1997 amounted to \$1,925,000 (1996 - \$2,040,000, 1995 - \$1,332,000).

11. GAIN ON SALE OF INVESTMENT

In September 1996, Mainframe Entertainment Inc. repurchased a portion of the Company's investment in Mainframe for net proceeds of \$7,684,000 resulting in a pre-tax gain on sale of \$7,544,000. The Company retained a 15% ownership interest in Mainframe (note 21).

12. INCOME TAXES

The differences between the effective tax rate reflected in the provision for income taxes and the Canadian statutory income tax rate are as follows:

	1997	1996	1995
Corporate statutory income tax rate	44.6%	44.6%	44.0%
Add (deduct) the income tax rate effect of:			
Foreign operations subject to different income tax rates	(11.9)	(31.9)	(24.6)
Expenses not deductible for income tax purposes	2.8	2.3	3.4
Other	(0.5)	0.7	(0.8)
	35.0%	15.7%	22.0%

The subsidiaries' non-capital tax losses are approximately \$1,180,000, which are available for offset against those subsidiaries' future taxable income. The benefits of these losses, which have not been reflected in these accounts, expire in various years to fiscal 2002.

Details of income taxes are as follows:

(In thousands of Canadian dollars)

	1997	1996
Depreciation	\$ 388	\$ 185
Financing fees	(1,803)	(995)
Prepaid royalties	5,217	20,067
Development costs	-	3,450
Investment in film and television programs	-	7,622
Other	1,719	1,927
Net operating loss carry-forwards	(2,822)	(21,438)
Deferred income taxes	2,699	10,818
Taxes payable	8,228	-
	\$ 10,927	\$ 10,818

13. EARNINGS PER SHARE

Earnings per common share is calculated on the basis of 11,919,000 (1996 - 9,840,000, 1995 - 9,543,000) weighted average common shares outstanding.

Fully diluted earnings per common share for 1997 is \$1.44 (1996 - \$0.99, 1995 - \$1.31). This reflects the effects of employee stock options and convertible debenture outstanding as at March 31, 1997 and 1996 and 1995.

14. STATEMENT OF CHANGES IN FINANCIAL POSITION

(In thousands of Canadian dollars)

	1997	1996	1995
Cash provided by (used in):			
Accounts receivable and distribution contracts receivable	\$ (40,427)	\$ (26,569)	\$ (22,388)
Accounts payable and accrued liabilities	38,828	(248)	5,551
Distribution revenue payable	(3,015)	(6,532)	13,223
Deferred revenue	30,274	(498)	(14,607)
Other	(3,710)	(1,526)	(2,952)
Net changes in non-cash working capital balances related to operations	\$ 21,950	\$ (35,373)	\$ (21,173)

15. GOVERNMENT FINANCING AND ASSISTANCE

Revenues include \$14,101,000 of production financing obtained from the government for the year ended March 31, 1997 (1996 - \$13,824,000, 1995 - \$8,881,000). This financing is repayable from distribution revenues in respect of which the financing was made. As revenues from these productions are not currently known, the amounts ultimately repayable to government agencies are not determinable. In addition, revenues include \$2,290,000 of government grants (1995 - \$693,000, 1994 - \$2,406,000).

Investment in film and television programs includes a reduction of \$10,291,000 (1996 - \$10,810,000, 1995 - \$10,209,000) with respect to government assistance for distribution of certain programs. In addition, revenues include \$859,000 (1996 - \$1,023,000, 1995 - \$1,492,000) of government grants. Government assistance may be repayable in whole or in part depending upon future revenues generated by certain individual film and television programs. The potential amounts repayable are not determinable.

16. RELATED PARTY TRANSACTIONS

Included in accounts receivable is \$218,000 (1996 - \$nil) due from officers of the Company.

17. COMMITMENTS AND CONTINGENCIES

a) The Company is committed with respect to operating leases for office premises and equipment expiring at various dates to May 2007. The future minimum payments under the terms of such leases are as follows:

(In thousands of Canadian dollars)

1998	\$ 2,982
1999	1,679
2000	1,366
2001	1,423
2002	959
Thereafter	3,007
	<u>\$ 11,416</u>

Rent expense for 1997 is \$2,053,000 (1996 - \$1,525,000, 1995 - \$1,418,000).

b) The Company is involved in various legal actions. In the opinion of management, any resulting liability is not expected to have a material adverse effect on the Company's financial position.

c) The Company has a letter of credit of US\$2,500,000 outstanding at March 31, 1997 (1996 - US\$2,500,000, 1995 - US\$2,500,000).

18. SEGMENTED INFORMATION

The Company is vertically integrated and operates exclusively in the production, distribution and structured production financing of television programs and motion pictures, broadcasting and music publishing industries, which are considered the dominant industry segments.

Revenues include \$113,216,000 (1996 - \$100,902,000, 1995 - \$105,588,000) derived from foreign sources.

19. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The estimated fair values of financial instruments as at March 31, 1997 and March 31, 1996 are based on relevant market prices and information available at the time. The carrying value of cash and short-term investments, accounts receivable, loans receivable, long-term investments, operating loan and bank indebtedness, accounts payable and accrued liabilities, distribution revenues payable, loans payable, and convertible debenture approximates the fair value of these financial instruments. Financial instruments with a carrying value different from their fair value include:

(In thousands of Canadian dollars)

	1997		1996	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:				
Assets for which fair value approximates carrying value	\$ 105,932	\$ 105,932	\$ 59,780	\$ 59,780
Distribution contracts receivable	76,272	74,066	64,948	63,283
Financial Liabilities:				
Liabilities for which fair value approximates carrying value	\$ 129,352	\$ 129,352	\$ 97,878	\$ 97,878

The fair value of distribution contracts receivable is based on discounting future cash flows using rates currently available for similar instruments. The Company has not written these receivables down as it expects to recover their carrying amounts fully by holding them to maturity.

Concentration of Credit Risk

Accounts receivable from the federal government and a government agency in connection with production financing represents 41% of total accounts receivable at March 31, 1997. The Company believes that there is minimal risk associated with the collection of these amounts. The balance of accounts receivable and distribution contracts receivable is widely distributed amongst customers. Loans receivable include amounts due from a relatively small number of customers. The Company maintains an allowance for credit losses in an amount considered adequate to absorb estimated credit-related losses.

20. RECONCILIATION TO UNITED STATES GAAP

The consolidated financial statements of the Company have been prepared in accordance with Canadian GAAP. The following adjustments and/or additional disclosures, would be required in order to present the financial statements in accordance with U.S. GAAP, as required by the United States Securities and Exchange Commission.

Under U.S. GAAP, the net earnings and earnings per common share figures and shareholders' equity for the years ended March 31, 1997, 1996 and 1995 would be adjusted as follows:

(In thousands of Canadian dollars)

	Net Earnings			Shareholders' Equity	
	1997	1996	1995	1997	1996
Canadian GAAP	\$ 18,188	\$ 10,365	\$ 12,975	\$ 150,424	\$ 95,380
Adjustment to development costs and investment in scripts net of income taxes of \$92 (1996 - \$648, 1995 - \$447)(a)	92 115	808	(562)	(401)	(516)
Adjustment to operating expenses with respect to stock options (b)	65 (77)	90	(457)	(799)	(722)
Adjustment to revenue with respect to television license agreements net of income taxes of \$662 (1996 - \$90, 1995 - \$243)(c)	112(2,062)	(2,501)	(125)	(5,718)	(3,656)
Adjustment to income tax provision excluding cumulative effect adjustment noted below (d)	8 -	-	166	193	193
Adjustment to retained earnings with respect to stock options.	-	-	-	799	722
U.S. GAAP excluding cumulative effect adjustment	16,164	8,762	11,997	144,498	91,401
Cumulative effect of income tax adjustment for years prior to April 1, 1993 (d)	8 -	-	-	(285)	(285)
U.S. GAAP	\$ 16,164	\$ 8,762	\$ 11,997	\$ 144,213	\$ 91,116
Earnings Per Common Share Based on U.S. GAAP(e)					
Primary	\$ 1.35	\$ 0.88	\$ 1.23		
Fully Diluted	\$ 1.30	\$ 0.86	\$ 1.17		

a) Accounting for Development Costs and Investment in Scripts

Under Statement of Financial Accounting Standards No. 53 "Financial Reporting by Producers and Distributors of Motion Picture Films" (SFAS 53), expenditures associated with the development of stories and scenarios are expensed as incurred while expenditures for properties such as film rights to books, stage plays, original screenplays, etc. are expensed if the property has been held for three years and has not been set for production. Under Canadian GAAP, development costs and investment in scripts is amortized over three years commencing in the year following the year such costs are incurred. The net difference of the two adjustments is disclosed as a U.S. GAAP reconciling item.

b) Accounting for Stock Options and Share Issuances

During fiscal 1997, the Company adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" (SFAS 123) but, as permitted, continues to apply Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" (APB 25) in accounting for its employee stock option plan for U.S. GAAP reconciliation purposes.

For the year ended March 31, 1996, compensatory employee stock options were issued and vested in the year. In accordance with APB 25, the difference between the quoted market price and the option price is recorded as compensation expense over the vesting period.

For the years ended March 31, 1997 and 1995, no compensatory employee stock options were issued which resulted in a compensation expense, however, a compensatory expense was recognized for options issued in prior years as they vested in the year.

Under SFAS 123, the Company's pro forma net earnings for U.S. GAAP would be \$15,123,000 (1996 - \$8,459,000) and primary earnings per common share would be \$1.26 (1996 - \$0.85).

As the provisions of SFAS 123 have not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

For disclosure purposes the fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for stock options granted in 1997 and 1996, respectively: expected dividend yields of 0.0% for both years, expected volatility of 41.4% and 39.9%, risk-free interest rate of 5.9% and 6.5% and expected life of 3 years for all grants. The weighted average fair value of the stock options granted in 1997 and 1996 was \$4.77 and \$5.30, respectively.

c) Revenue Recognition From Television License Agreements

Under Canadian GAAP, revenues from license agreements for television programs are recognized as earned when the television program is completed and delivered, when amounts are due from exhibitor or when a contract is executed that irrevocably transfers distribution rights to a licensee, and there is reasonable assurance of collectability of proceeds. Under SFAS 53, revenues from license agreements for television programs are recognized at the time the license periods commence instead of at the time the license agreements are executed.

d) Accounting for Income Taxes

Effective April 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" (SFAS 109) for U.S. GAAP reconciliation purposes. The adoption of SFAS 109 changes the Company's method of accounting for income taxes from the deferral method to the asset and liability method. SFAS 109 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of assets and liabilities that have been recognized in the financial statements.

As a result of the adoption of SFAS 109, the Company recognized an additional expense of \$285,000, representing the cumulative effect of the change on results for year prior to April 1, 1993.

Under U.S. GAAP, the provision for income taxes for the year ended March 31, 1997 would be \$9,218,000 (1996 - \$2,493,000, 1995 - \$2,802,000).

The application of SFAS 109 would increase broadcasting licences and income taxes by approximately \$5,850,000 at March 31, 1997 (1996 - \$nil).

e) Earnings per Common Share

Under Accounting Principles Board Opinion No. 15 "Earnings per Share" (APB 15), earnings per share is based on the weighted average number of common shares issued and outstanding and common stock equivalents, including stock options and warrants.

Certain stock options and shares are considered to have been outstanding from the beginning of the year for the earnings per common share calculations at March 31, 1997, 1996 and 1995. The treasury stock method was applied in the earnings per common share calculations.

Primary earnings per common share is calculated on the basis of 11,985,000 (1996 - 9,922,000, 1995 - 9,719,000) weighted average shares outstanding.

For U.S. GAAP disclosure purposes, the Company will adopt the new U.S. GAAP standard for computing earnings per share, Statement of Financial Accounting Standards No. 128 "Earnings Per Share" (SFAS 128) for the year ended March 31, 1998. The effect of applying SFAS 128 to years prior to March 31, 1998 does not produce a materially different earnings per share as computed under APB 15.

f) Consolidated Statements of Cash Flows

The Company's cash flows determined in accordance with U.S. GAAP would be as follows:

(In thousands of Canadian dollars)

	1997	1996	1995
Operating activities	\$ 238,383	\$ 174,282	\$ 166,992
Investing activities	(252,676)	(195,037)	(198,479)
Financing activities	19,867	7,732	18,193
Effect of exchange rates on cash	113	(747)	218
Increase (decrease) in cash and cash equivalents	\$ 5,687	(\$13,770)	\$ (13,076)

21. SUBSEQUENT EVENT

On June 17, 1997, the Company sold a portion of its investment in Mainframe Entertainment Inc. in connection with Mainframe's initial public offering for net proceeds of \$4,594,000 and realized a pre-tax gain on sale of \$4,535,000. The Company retained a 7% ownership interest in Mainframe.

The Toronto Stock Exchange and the Montreal Exchange have established certain annual disclosure requirements relating to corporate governance practices for every listed company incorporated under Canadian or provincial laws. Disclosure with respect to corporate governance practice is to be made with reference to the Guidelines established by The Toronto Stock Exchange Committee on Corporate Governance in Canada in its report dated December 20, 1994.

The review of the company's practices in the context of the Guidelines was undertaken by the Corporate Governance Committee, composed of unrelated directors of the company. An unrelated director is one who is free from any interest in any business or other relationship which could, or could reasonably be perceived to, materially interfere with a directors' ability to act with a view to the best interests of the company, other than interests arising from shareholding.

MANDATE OF THE BOARD

It is the responsibility of the Board to supervise the management of the affairs and business of the company, acting with a view to the best interests of the company, pursuant to the powers granted by, and the obligations imposed under, the Canada Business Corporations Act, the articles and bylaws of the company, and common law. The Board holds five regularly scheduled meetings annually, as well as additional meetings to address issues from time to time. In addition, Board members are consulted informally by senior management of the company to remain informed of corporate developments which may not require formal meetings and to provide advice as needed. In the previous fiscal year the Board met on seven occasions.

The Board, either directly or through its three committees, the Audit Committee, the Compensation Committee and the Corporate Governance Committee, includes in its responsibilities:

- overseeing the strategic direction of the company's development, with a view to ensuring continued profitable growth;
 - ensuring the maintenance of adequate systems of internal controls, information availability and compliance with all relevant regulations that govern the operations of the company;
 - supervising the performance of senior executives of the company, including the compensation and incentivization of senior management, as well as compensation plans relating to employees and management generally;
 - ensuring that the company maintains a comprehensive communications policy, with a view to strictest compliance with the company's disclosure obligations as a public company; and
 - generally, ensuring that the company established and adheres to the highest standards of management accountability.
- All of these responsibilities are addressed continuously by the Board in carrying out these duties throughout the year.

BOARD COMPOSITION

The Board currently consists of 13 directors. Of that number, nine are unrelated directors. The unrelated directors are Pierre Desroches, Harold P. Gordon, Edward Greenspan, Ellis Jacob, Allen Karp, David J. Kassie, Anna Porter, Gerald W. Schwartz and Donald R. Sobey. In considering their qualifications as unrelated directors, the Board took into account relationships certain of the unrelated directors to have or have had with the company. The company is currently a party to a consulting agreement with Mr. Gordon. Mr. Karp and Mr. Jacob are the Chief Executive Officer and Chief Financial Officer, respectively, of Cineplex Odeon Corporation, which is the principal exhibitor of Alliance's theatrical releases in Canada.

Mr. Schwartz is President, Chairman and Chief Executive Officer of Onex Corporation, which holds a convertible debenture issued by the company in the amount of \$16.5 million. Mr. Kassie is Deputy Chairman, CIBC Wood Gundy Securities Inc., which has provided investment banking services in the past to the company. In addition, from time to time, directors may be compensated for professional advisory and consulting services provided to the company. During fiscal 1997, the company retained Mr. Greenspan's law firm and Mr. Desroches and Ms. Porter were engaged as consultants. The Board does not believe that the relationship of each individual with the company could reasonably be perceived to materially interfere with that directors' ability to act in the best interest of the company.

The Board has considered its composition and size, and is of the view that is able to fulfill its duties and carry out its responsibilities effectively. The company does not have a significant shareholder.

The Board has delegated certain responsibilities to committees, which meet independently as required. The Audit Committee, the Compensation Committee and the Corporate Governance Committee are made up exclusively of unrelated directors.

Mr. Lantos, the Chief Executive Officer of the company, is also the Chairman of the Board. While the two positions are held by Mr. Lantos, in view of the number of unrelated directors and outside directors on the Board, the Board has determined that it is able to act independently of management. Any director is entitled to request that the Board meet without management present, and the Board has from time to time met without management present.

BOARD COMMITTEES

The Audit Committee is responsible for the detailed review of the company's internal controls; preparation of quarterly unaudited, and annual audited, financial statements; the performance of the Chief Financial Officer; and the preparation of Managements' Discussion and Analysis. In addition, it reviews the performance of the company's auditors and recommends their appointment as required. It also assesses with the auditors the company's amortization policies as they relate to investment in films and television programming, with a view to ensuring the prudent amortization of the company's films and television assets in accordance with industry standards.

The Committee, comprised of Harold P. Gordon, David J. Kassie and Ellis Jacob, met four times in fiscal 1997.

COMPENSATION COMMITTEE

The Compensation Committee is responsible for determining the compensation and incentivization of senior executives of the company, including the Chairman and Chief Executive Officer, with a view to assessing the appropriateness of salaries and short and long term incentive plans, including bonuses and the issuance of stock options to senior executives and other employees from time to time. In addition, it is responsible for the review of the administration of the company's employee stock option plan and for assuring a proper allocation of responsibility among senior executives and depth of management required to enable the company to achieve its long term objectives.

The Compensation Committee met twice in fiscal 1997 and is currently comprised of Harold P. Gordon, Allen Karp and David J. Kassie.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee was formed in response to the concerns addressed in the Guidelines. Its mandate is to review the corporate governance practices of the company in light of the Guidelines, and the needs of the company, particularly with regard to reviewing on an ongoing basis the responsibilities and composition of the Board and its Committees, and the effectiveness of the members of the Board. It also reviews the qualification of candidates for Board membership and the list of candidates to be nominated for election by the shareholders from time to time. In addition, the Committee will review on an annual basis the remuneration and benefits paid to the directors and formalize the company's orientation process by which it integrates new directors to the Board and the company.

Finally, it must advise the Chief Executive Officer, within 140 days of each fiscal year end, that it is necessary or advisable that the company be Canadian-controlled. If the Committee should not so advise, the Class B Non-Voting Shares of the company are to be automatically converted into Class A Voting Shares. It is the policy of the company that any director may seek Committee approval to engage outside counsel at the expense of the company in appropriate circumstances.

The Corporate Governance Committee met twice in fiscal 1997 and is currently comprised of Harold P. Gordon, Edward Greenspan and David J. Kassie.

DECISIONS REQUIRING BOARD APPROVAL

In addition to those matters which must by law be approved by the Board, all material transactions outside of the ordinary course of the company's business are submitted to the Board for its approval.

SHAREHOLDER RELATIONS

The Executive Vice President, with the support of the Chief Financial Officer and the Senior Vice President, Communications, of the company, is responsible for shareholder and investor relations. All inquiries are promptly and fully addressed, having regard to limitations imposed by law and by the sensitivity of the information in relation to the company's competitors. At the company's annual meeting, full opportunity is afforded for shareholder questioning of senior management and the company's activities.

BOARD EXPECTATIONS OF MANAGEMENT

The Board looks to management to formulate and carry out strategic planning with a view to achieving continuing profitable growth and obtaining maximum return on the shareholders' equity and the company's assets. Management is also expected to provide all necessary information in a timely manner to the Board and its committees, to ensure that they properly discharge their responsibilities. Finally, the Board expects management to carry out its responsibilities to the company and its shareholders in a prudent manner, adhering to the fundamental principles of risk management and maximum exploitation of its resources and the products that form the foundation of the company.

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ANNUAL MEETING

Tuesday, September 23, 1997
Design Exchange
Trading Floor
234 Bay Street
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at 10:00 am EDT

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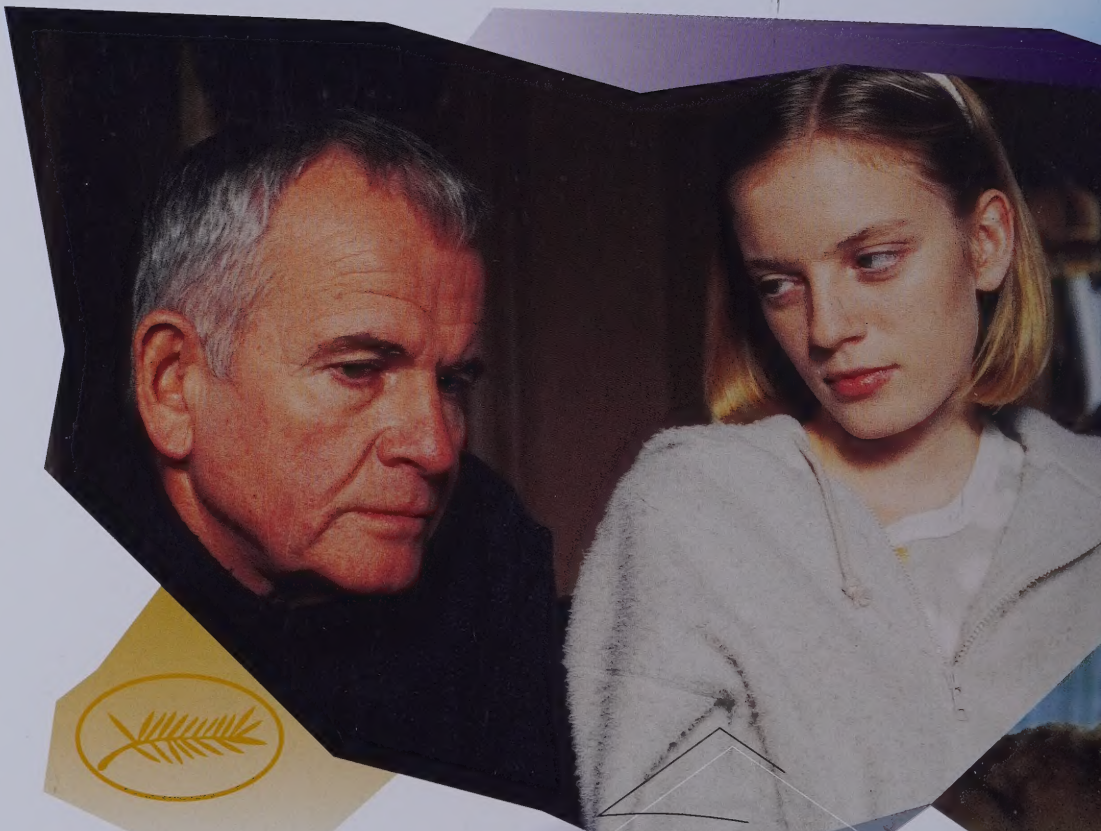
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